Docket No. 06-057-T04
Marlin H. Barrow
January 16, 2007

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO REMOVE GSS AND EAC RATES FROM COMPANY TARIFF	)))))	DOCKET NO. 06-057-T04

DIRECT TESTIMONY OF

MARLIN H. BARROW

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

January 16, 2007

Q. Please state your name, business address, and present position with the Division of Public Utilities.

A. My name is Marlin H. Barrow; my business address is the Heber Wells Building, 160 East 300 South, Salt Lake City, Utah. My position with the Division of Public Utilities (Division) is a Utility Analyst.

Q. Could you please explain your education and regulatory experience?

A. I have a Bachelors Degree in Business Administration from Brigham Young University and a Masters Degree in Business Administration from Westminster College. I have been with the Division for five years. Prior to coming to the Division, I was employed with Northwest Energy / The Williams Companies for over twenty-six years here in Salt Lake City.

Q. What is the purpose of your testimony in this filing?

A. My purpose is to present the position of the Division regarding the tariff filing of Questar Gas Company (QGC or Company) to eliminate the GSS, IS-4 and ITS (GSS) Rates and Expansion Area Charge (EAC) from the Company’s Tariff.

Q. What is the position of the Division regarding this matter?

A. The Division supports the concept of eliminating the GSS, ITS and IS-4 rates from the Company’s tariff, as well as eliminating the EAC charges.

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Q. Why does the Division support elimination of these rates and charges?

A. The history of this process has already been adequately summarized in the Company's Application. The review of the issue of the GSS/EAC rates began back in March 2005 at the request of the Commission. This request was undertaken in response to Beaver County's memo to the Commission detailing specific concerns that Beaver County, and in general the rural communities which have the GSS rate or the EAC charges. According to Beaver County Officials, these communities have difficulty in competing for and attracting commercial and industrial enterprises into their respective areas. One of the sources of these difficulties is that natural gas rates in these areas are higher than similar communities in their area, such as Cedar City, because of the GSS/EAC rates. It is difficult for those communities to compete for new economic opportunities when compared to the areas in the state where the GSS/EAC rates do not apply.

Q How do the GSS and EAC rates, differ from the GS-1 rates?

A In the GS-1 rate class there are four components that make up the overall total rate.

(1) The Monthly Basic Service Fee (BSF) which is set at $5.00 a month for the majority of customers. The fee is based on the capacity of the meter.

(2) The Distribution Non-Gas Cost (DNG) rate. This rate is established during general rate cases and is set to generate the revenue required to recover the cost of service for each rate class.

(3) The Supplier Non-Gas Cost (SNG) rate which is designed to recover the upstream pipeline costs associated with delivering gas to the QGC city gates throughout the distribution system.

(4) The Commodity Cost rate which is designed to recover the costs of purchasing or producing the gas delivered to customers on the sales rate schedules.

The last two rates adjust at least biannually through the Purchase Gas Adjustment (PGA) mechanism.

The GSS rate was designed to collect two times the GS-1 DNG rate from the customers in the expansion areas. However, the GSS rate class has a minimum bill instead of a Monthly BSF. The Extension Area Charge is an additional fixed monthly fee, similar to the BSF, designed to recover the extra costs associated with providing the necessary gas distribution infrastructure necessary to deliver natural gas to those rural areas. The EAC charge is collected in the expansion areas in addition to the BSF.

Q **Why do these GSS/EAC rates exist?**

A. The GSS rates were first put into effect in 1987 through 1990. There were a total of seven counties throughout the State of Utah and one in Idaho where Questar expanded its gas service. Those eight counties paid the GSS rate, which was calculated as double the GS-1 DNG rate for ten years. The other portions of the GS-1 rate, the Supplier Non-Gas and Commodity portions remain the same for these counties. At the end of 10 years, the areas that had the GSS rates were switched to the GS-1 rates. This was done without a general rate case being filed by QGC.

During 1992-93, gas service was extended into five more rural counties under the GSS rate schedules. Because the residents in these counties were more spread out, and the costs were a higher to expand into these areas, they were required to stay on the GSS rates for 20 years. These areas have been paying the double GS-1 DNG rates for the last 14 to 15 years and continue to pay today.

It is important to keep in mind, that even though, at the time the Commission approved the implementation of these GSS rates for these communities, based on cost and revenue projections of providing service to these communities, QGC was not required to collect a specified revenue amount from the GSS customers in these communities. Also, the dollars spent to place the necessary infrastructure in service for the GSS areas was not tracked separately but instead included in the respective plant accounts along with all the other costs of the distribution system. There was only a set time period set up to collect the GSS rate, at the conclusion of which they would be switched to the GS-1 rate and the Company would no longer collect the double DNG rate from those customers. QGC's revenues would drop by the amount of decrease created by the switch to a single DNG rate. All of this could happen outside of a rate case as was the case with the original GSS communities who only were required to pay for a ten year period. For example, St. George and Cedar City paid GSS rates for ten years following Questar extending natural gas service to these communities. At the end of the ten year period the revenues simply dropped off- the ratepayers in these communities reverted to the GS-1 rate – and the costs continued to be counted as part of QGC's overall rate base and cost of service.

Beginning in 1995, EAC rates were approved by the Commission to provide a means for QGC to expand into nine additional communities that did not want to be billed under the GSS rates. In these communities, the monthly EAC charges were calculated as though QGC was "lending" these communities the required funds to expand gas service to them over a 15 year payoff period. The calculated EACs were based on the assumption that at least 70% of the available customers in each community would sign up for gas service within two years. The Commission required QGC to track the payments received from each community. When the present value of the EAC payments received equaled the original costs, the monthly EAC charge would be removed from the bills of those customers that resided in the community. It was recognized by QGC, the Commission and the communities that this could occur before 15 years if growth estimates used to calculate the monthly customer charge exceeded the original estimate or it could take longer than 15 years if the growth rates were slower than anticipated.

Q What did the Commission do after receiving the 2005 memo from Beaver County?

A. The Commission first held a technical conference to identify the issues regarding the GSS and EAC rates in which interested parties were in attendance, including QGC, the Division, the Committee of Consumer Services (Committee), the Commission and representatives of the rural communities. After the technical conference, a working group was established, led by Lowell Alt of the Commission Staff. This working group met several times during 2005 to discuss the issue and identify potential solutions.

Q What was the result of the 2005 working group process?

From the Division's point of view, three positive results came from that review process. The first positive result was a review of the history behind the development and creation of the GSS/EAC rates. During the last couple of years, the staff of the Division has seen a tremendous turnover due to the well deserved retirement of many of its more experienced and knowledgeable personnel; many of those who knew the history behind the creation of those rates, which for the GSS can be dated back to 1986 through 1993 and for the EAC rates, 1997 through 2000.

A second positive result that occurred was a realization that there were differences in the calculations used for the economic justifications of the GSS and EAC rates. The GSS rates were calculated using an after-tax rate of return while the EAC rates were based on a pre-tax rate of return.

A third result that occurred was a realization that of the nine communities then being charged the EAC, only Ogden Valley was expected to payoff within the 15-year period. All of the others would extend beyond the 15 years due to lower than expected customer growth[1] and delays in customer sign ups in those areas.

The 2005 study group recommended the EAC calculation should use an after-tax rate of return, consistent with the way the previous GSS rates were calculated.

[1] Cedar Fort also showed a positive payoff due to a reduction in loan balance because of the Lakeside Generation plant.

This proposed change, applied retroactively to the entire period of the EAC collections, would result in accelerating the payoff period for all the communities under the EAC rate structure as discussed in QGC's application[2]. Once the working group agreed upon this recommendation, QGC filed a tariff change to implement the calculation. The tariff change was filed on September 20, 2005, the Commission approved the change on September 30, 2006, and the EAC for the Ogden Valley area was removed on October 1, 2005 which immediately had the effect of reducing QGC'S annual revenue collection by $0.5 million without any reduction in costs.

Q. Was that the end of the 2005 process?

A. No. The group also suggested that QGC should make a filing to the Commission with a proposed way to deal with the GSS/EAC issue.

Q What followed next?

A On December 16, 2005, QGC filed with the Commission, in Docket No. 05-057-T01 an application to create a Conservation Enabling Tariff (CET). The Division of Public Utilities and Utah Clean Energy were co-applicants to that filing. As part of that application, QGC recommended that the GSS, ITS and IS-4 rates be eliminated and combined with the GS-1, IT and I-4 rate schedules respectively. QGC also suggested that a task force be created to study the EAC charges that currently exist and to make suggestions to the Commission about the future of the EAC charges. The original filing included a $10.2 million revenue reduction to the GS-1

[2] Questar Gas Company's Application to Remove GSS and EAC Rates From Questar Gas Company's Tariff, Docket No. 06-057T04, page 4, Paragraph 5.

rate class. This $10.2 million dollar revenue reduction included rolling the GSS rates into the GS-1 rate schedule.

Q. What was the outcome of that application?

A. After a prolonged effort, on May 26, 2006 a stipulation was approved by the Commission adopting a GS-1 DNG rate decrease of $9.7 million and creating a task force, to be chaired by the Division, to study not only the EAC charges, both current and future, but at the insistence of the Committee of Consumer Services exclude the rolling in of the GSS rate class and instead let the task force study the issue in more detail. On October 5, 2006, the Commission issued an order adopting the $9.7 GS-1 DNG rate decrease, creating a pilot CET program as well as a DSM Advisory Group to review proposed DSM programs.

Q. What was the result of the efforts of the task force created to study the GSS/EAC issues?

A. The task force met on four separate occasions and issued a report to the Commission on August 24, 2006. The task force had members representing Questar Gas, the Committee, the Division, Salt Lake Community Action Program (CAP) and representatives from the Utah Counties Economic Development Group. Also, members of the Commission Staff attended some but not all of the meetings.

The task force recommended on a consensus basis that any future expansion of natural gas infrastructure under taken by QGC should be financed by funds other than through QGC rates. In other words, there should be no further GSS/EAC type rates created by QGC for areas that currently do not have natural gas service. The task force did not reach consensus on the current GSS/EAC solution. The Division of Public Utilities, QGC and the Utah Counties Economic Development Group favored rolling in the GSS/EAC rates into the existing GS-1, IT and I-4 rate schedules. The Committee and CAP did not. Hence this Docket and proceeding.

Q. What are the financial effects of combining the GSS/EAC rates into their respective GS-1, IT and I-4 rate schedules?

A. As pointed out in the application in this Docket in Paragraphs 9 and 11 and amended tariff filing paragraph 4, the effect on a typical GS-1 customer, assuming an average usage of 115 decatherms a year is $2.24 or about a 0.22% increase. For the I-4 and IT rate classes, the change is about a 1.2% increase. However, this filing was prepared before the Commission authorized the revenue reduction of $9.7 million due to the CET tariff filing and the $2.24 dollar per year increase was based on rates which were in effect prior to November 1, 2006. The annual increase to a typical GS-1 customer, assuming 115 decatherms of annual usage is $3.77 or a 0.37% increase from current DNG rates which are in effect after the CET tariff effective November 1, 2006.[3] `

These changes are based on the $1.2 million of annual revenue now being collected from GSS rates and $0.5 million for EAC charges that would be rolled into the GS-1 rates for collection.

[3] MHB Exhibit 1.1

Q. How was the $1.2 million of revenue for the GSS rates and the $0.5 million for the EAC charges determined?

A. QGC has provided that information to the Division at the Division's request. That response is shown in Exhibit 1.2. The $1.2 million for the GSS rate class and the $0.5 million for the EAC charges are based on projections of sales volumes used in QGC's May 2006 IRP filed with the Commission on May 1, 2006 and covers a 12 month period from November 2006 through October 2007. Column A of Exhibit 1.2 shows the DNG revenues expected to be collected over the forecast period as they currently exist. Column B shows the same revenue projections with the GSS, IS-4 and IT-S now merged into their respective GS-1, I-4 and IT rate classes. Column E is the difference between Columns A and B and as shown on the Total line for Column E, a decrease of $1.2 million in DNG revenue has occurred by eliminating the GSS, IT-S and IS-4 rate schedules. Column C shows the effect of removing the EAC charges and the effect of doing that is shown in Column F, which shows a decrease of $0.5 million. Column G simply is the difference between Columns A and C or the total effect of eliminating both the GSS rates and EAC monthly charges. Column D shows the revenues collected using the proposed increases in the DNG rates and Column H shows the difference between Columns A and D or the net expected revenue decrease that QGC gives up in this filing which is $0.151 million.

Q. Isn't it true that by rolling in the GSS tariff rates and EAC charges into the GS-1 DNG rates that the GS-1 DNG rates will increase?

A. Yes, based on the projections provided by QGC, the GS-1 DNG rate will increase, but the total revenue being collected from the GS-1 rate class will not increase. The GS-1 DNG rates increase to adjust for the revenue that is no longer being collected from the GSS rates or the EAC charges. The GSS and the EAC customers are subgroups of the overall GS-1 rate class. The proposed change takes $1.7 million of revenue, which now is being collected from the GSS/EAC subgroup and reallocates that $1.7 million to the entire GS-1 rate class including the original GSS/EAC subgroup

Q. **By doing this, isn't this excusing legal obligations of some of QGC's customers.**

A. I am not an attorney, so I won't offer a legal opinion, but I will offer my own opinion regarding this matter. When these rates and charges were first created, it was for the purpose of bringing natural gas to areas of the State that did not enjoy the benefits of natural gas. The first wave of GSS participants paid for 10 years under that plan and met their agreed obligation. The second wave of GSS participants have now been paying for thirteen to fourteen years, longer than the first wave of participants. At the present time, we don't know if the GSS rates really have paid off their cost to serve because those costs have been included in the total costs of the GS-1 class and the revenues have not been tracked separately for those areas. QGC'S customers are made up of individual households as wells as businesses. The obligations to make the payments under the GSS/EAC tariff conditions reside with geographic areas or communities, not with individuals. If a person who resides in a GSS/EAC area decides to move to another part of the state where there is no

GSS/EAC tariff because of a job offer or lack of one in their current area, he or she does not pay the GSS/EAC tariff. It stays at the location waiting for the next person who moves in there to pick up the obligation. If no one moves in the obligation goes unpaid. Those costs don't go away and eventually any costs that are not met because people have moved out will be picked up by the GS-1 class at the next rate case. In fact, in the last rate case, the GS-1 class already received an "allocation" of the cost to serve the EAC areas because the original revenue expectations of those areas have not materialized and the cost to serve those areas is not being covered by the current revenue allocations to the GS-1 rate class.

I think an unintended consequence of the creation of the GSS/EAC is that geographic areas have been created within the state where gas service from QGC costs more. That isn't the case for any area served by Rocky Mountain. Power in the state of Utah. I don't think that is good public policy and violates some principles of regulatory rate making, namely, fairness and equity within rate classes.

Q. You previously mentioned the CET tariff. How does the CET tariff mentioned affect the actual DNG rates of the GS-1 rate classes which include the GSS and EAC customers?

A. Yes I did mention the creation of the CET tariff earlier in my testimony, and I think this is a fact that has completely been ignored. The CET tariff places a set limit on the amount of DNG revenue QGC may collect from the combined GS-1 and GSS customer rate classes. That set amount is $255.53 per year per GS customer. This annual amount is allocated monthly per a set schedule as contained in QGC'S tariff.[4] The calculation of these monthly amounts is based on the actual total number of GS-1 and GSS customers, which also includes those receiving the EAC charges, times the allowed revenue per month per customer as set out in QGC tariff. That determines the total monthly allowed revenue. The true-up or monthly accrual is based on that total monthly allowed amount minus the actual GS-1 and GSS DNG revenue collected. The accumulations of these over or under amounts will be amortized bi-annually at the same time as the regular 191 account pass-through filings by adjusting the DNG rates to amortize the over or under collections.

Q. What is the implication of this fact?

A. The CET assumes that, on average, the Company is allowed to collect $255.53 per customer. However, the average revenue collected in these expansion areas in most cases is double this amount. This is shown in my Exhibit 1.1 Col H, lines 47-55. If these rates are not rolled in, some of these EAC communities can pay up to $676 per year ($420 + $256) as compared with the average GS customer paying $256. The same inequity exists within the GSS rate class because they pay double the DNG rate. The Division feels for these reasons the GSS and EAC charges need correcting so that within the GS-1 rate class, all customers are charged on an equal basis.

[4] Questar Gas Company Utah Natural Gas Tariff PSCU 400; section 2.11

Q. Earlier you indicated that the Division supports the concept of eliminating these rates and charges. Is the Division recommending that the Commission roll these GSS rates and EAC charges into the GS-1 DNG rates at this time?

A. No. The GSS rates were originally designed to apply for a specific number of years, after which the GSS rates drop off or revert to the normal GS-1 DNG rate. Under the current schedule these GSS rates will revert to the GS-1 rates in six to seven years. Furthermore, the $1.2 million described in the application as being collected through the GSS rates is based on projections of usage per customer, number of customers and revenue for 2007 contained in the 2006 IRP. Questar will file a new IRP in the near future. While some costs have been reviewed since the last rate case in 2002 which led to a rate decrease as detailed in the CET Stipulation, the Division believes that other costs, including the authorized rate of return, may have declined. Also, the Division is not sure whether the IT rate class or the I-4 rate class has been notified regarding a rate increase resulting from rolling in the ITS and IS-4 rates. Therefore, the Division recommends that the GSS rates and EAC charges be rolled in as part of a general rate case where all of the Company's revenues and expenses can be reviewed.

Q Does this conclude your testimony?

A. Yes.