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BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION TO REMOVE GSS AND EAC RATES FROM QUESTAR GAS COMPANY'S TARIFF	Docket No. 06-057-T04

STIPULATION TESTIMONY OF

DANIEL E. GIMBLE

FOR

THE

COMMITTEE OF CONSUMER SERVICES

March 14, 2007

Introduction

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

A: My name is Daniel E. Gimble. I am the Chief of Technical Staff for the Committee of Consumer Services (Committee). My business address is 160 E. 300 S., Heber Wells Building, Salt Lake City, Utah.

Q: ARE YOU THE SAME DANIEL E. GIMBLE THAT PRE-FILED DIRECT AND REBUTTAL TESTIMONY PREVIOUSLY IN THIS DOCKET?

A: Yes.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: My testimony provides the Committee's recommendation on the GSS/EAC Stipulation (Stipulation) that was filed with the Utah Commission on February 14, 2007 and its perspective regarding the Stipulation.

Q: WERE YOU INVOLVED IN SETTLEMENT DISCUSSIONS THAT CULMINATED IN THE PROPOSED STIPULATION?

A: Yes, I was involved, along with other Committee Staff members, in several negotiation sessions that resulted in the proposed Stipulation.

Stipulation Terms & Rate Impacts

Q: PLEASE LIST AND BRIEFLY DESCRIBE THE KEY TERMS CONTAINED IN THE STIPULATION.

A: The five major provisions are as follows:

Paragraph 8—Removal of GSS/EAC rates: The GSS, IS-4, ITS and EAC rates are eliminated and customers previously on those rate schedules are moved to the GS-1, I-4 and IT rate schedules.

Paragraph 10—Financing Future Expansion Areas: Financing needs to be secured up-front from a third party before expansion work commences.

Paragraph 11—Accruals to GSS Revenue Account: Estimated GSS and EAC revenues will be included in Account 191.8 for future consideration of rate treatment as set forth in Paragraphs 14 and 16. Account 191.8 is also subject to audit and review (Paragraph 15).

Paragraph 12—Time Limit: Questar will stop accruing revenues in Account 191.8 the earlier of the following--after a period of six years or when they have been addressed in a general rate case.

Paragraph 14---GSS Revenue Account Amortization: Any party may request the balance in the GSS Revenue Account be included in rates and amortized after the 1-year Conservation Enabling Tariff (CET) Review Period (October 2007 timeframe) or during a Questar Gas general rate case, whichever occurs first.

Paragraph 16—Amortization Request: The Commission may approve a request to amortize the balance in the GSS Revenue Account outside a general rate case.

Q: IF THE GSS-EAC RATES ARE ELIMINATED AS PROPOSED IN THE STIPULATION, WHAT ARE THE RESULTING RATE IMPACTS ON GS-1, GSS AND EAC CUSTOMERS?

A: There will be no immediate rate impact on GS-1 customers because the estimated revenue shortfall will be accrued and tracked in a separate GSS Revenue Account. Once the GSS Revenue Account is amortized into rates, GS-1 customers will see an increase on their monthly bills of about $0.16 /month.[1] GSS and EAC customers will immediately see decreases on their monthly bills that will vary in size across the GSS and EAC communities. For instance, the decreases for the EAC customers range from approximately $16/month to $30/month.

<u>Committee Review of the Stipulation</u>

Q: HAS THE COMMITTEE REVIEWED AND DISCUSSED THE STIPULATION?

A: The Committee carefully considered the Stipulation at its February 13, 2007 Meeting.

Q: DOES THE COMMITTEE SUPPORT THE STIPULATION?

A: Yes. A majority of the Committee voted to support Stipulation and in doing so determined that the GSS and EAC rates are no longer just and reasonable. Thus, a majority of the Committee are of the view that the settlement provides a reasonable outcome that is in the public interest.

Determining what is just and reasonable in this docket has been complicated by the reality that we are not writing on a clean slate. First, the threshold decision of whether to incur the costs to extend natural gas utility service to the communities in question was made years ago. Second, this ratemaking issue has a somewhat unusual history in that similar rates were previously implemented and eliminated in varying manners. Given this history, the regulatory task of determining a just and reasonable outcome is more complicated than one would normally expect.

<u>Elimination of GSS and EAC Rates</u>

Q: PLEASE DISCUSS WHY THE COMMITTEE SUPPORTS THE ELIMINATION OF THE GSS AND EAC RATES.

[1] The Company’s response to DPU Data Request 2.1 shows the calculation supporting the current $0.16/month estimate. The $0.16/month estimate is lower than the $0.19/month estimate provided in the Company’s Application because the number of GS-1 customers has increased since the time the Company made its initial calculations.

A: First, the expansion area rates currently paid by GSS and EAC customers are no longer just and reasonable because they are based on the estimated, rather than actual, investment costs of providing service to the GSS and EAC areas. The Commission orders establishing the GSS and EAC rates did not require on-going scrutiny to compare estimated costs with actual costs in order to test the reasonableness of the expansion area rates over time. These investment costs were not separately identified and tracked, but were simply rolled into the Company's rate base under "blanket work orders."[2] From a cost-of-service standpoint, there is no accurate way of knowing whether the GSS and EAC rates reflected actual expansion costs over the rate effective period.[3]

Second, the design and implementation of the GSS and EAC rates have resulted in disparate rate impacts on customers in those expansion communities. Regarding the GSS rate, customers in certain communities were required to pay the GSS rate for ten years while a second set of customers in GSS communities were required to incur the charge for twenty years—without any reconciliation of the revenue collected under the GSS rates to the actual costs of providing service to each community. Turning to the EAC rate, the repayment of extension costs are based upon whether the projections of customer growth were reasonably accurate so that Questar recovers the estimated costs to serve the new communities or areas. In the case of Ogden Valley, a confluence of various factors -- the number of residential customers increased at an unexpectedly rapid pace, the development of one of Utah's large ski resorts (Snowbasin), along with a 2005 interest rate reduction-- resulted in customers paying off their EAC contributions before the full term. In the case of Brian Head, also a ski resort but not located near an urban area, the lack of growth likely means that customers' EAC obligations will never be fully paid off.

Q: ARE THERE OTHER EXAMPLES THAT ILLUSTRATE THIS DISPARATE RATE IMPACT?

A: The differential rate impact discussed above also appears in the case of Cedar Fort. In its May 6, 1999 Order in Docket No. 99-057-05, the Commission found that extending service to Cedar Fort required an up-front customer contribution of $673,000. As required by House Bill 180, the Commission found that extending service was not economical unless

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[2] According to the Company's Response to CCS DR 3.01: "When the distribution system was installed in these areas, the investments in mains, service lines, meters and regulators were booked into blanket work orders as they are in all other areas of the Company. When investments are booked into blanket work orders, the individual source of the investment is no longer available."

[3] The GSS rate, which was set at double the GS-1 rate for fixed term and applied in "blanket" fashion to all communities, is especially problematic because it is not reasonably related to the actual costs of extending service to those individual GSS communities.

existing customers incurred some amount of up-front costs. The Commission found that a EAC of $30/month, over 15 years, recovered $397,000, leaving a residual of $276,000. The un-recovered amount to be included in overall GS-1 rates was less than 0.2% and was, therefore, found to be appropriate under House Bill 180. Subsequently, the unforeseen development of PacifiCorp's Lakeside generating plant resulted in a financial contribution that greatly accelerated the payoff of Cedar Fort customers' EAC obligations.

In contrasting Cedar Fort with Brian Head and Panguitch, the other two communities that paid EACs and similarly received assistance under House Bill 180, chance events resulted in disparate rate impacts among these communities: Cedar Fort has paid off its EAC obligation; Panguitch is projected to pay off its EAC contribution in 2015; and Brian Head may never fully pay off its EAC obligation.

Q: DOES THE CONSOLIDATION OF GSS AND EAC TARIFFS INTO THE GS-1 RATE CLASS CONFORM TO THE PUBLIC POLICY DECLARATION IN HOUSE BILL 180?

A: Although House Bill 180 was only effective for a short period of time, the public policy behind the legislation could be perceived as a strong statement of support for the elimination of GSS rates and the EAC. The statute, Utah Code §54.3.8.1 (Repealed December 31, 1999), begins by saying: "The extension of natural gas service to municipalities without natural gas service is encouraged as a means to assist in economic development and to promote the safety, health, comfort, and convenience of citizens residing in these areas." To safeguard existing customers from unjust or unreasonable rates, the statute required that "any application, together with any increases that could result from previously approved applications, does not result in an incremental increase in annual rates and charges to existing customers of more than 1/5% as measured by rates in effect on July 1, 1998." If this criterion is applied to the Stipulation, customers paying GSS and EAC rates have fulfilled or even exceeded the obligation to contribute to extension area costs. The incremental increase in annual rates to existing GS-1 customers from the Stipulation is $1.87, which is less than 0.2% ($2.01) of annual rates and charges as set forth under the provisions of House Bill 180.[4].

<u>Average Ratemaking Principles and Methods</u>

Q: CAN THE ELIMINATION OF THE GSS AND EAC RATES BE VIEWED SIMPLY AS A SUBSIDY FROM THE VAST MAJORITY OF "URBAN" GS-1 CUSTOMERS TO A RELATIVELY SMALL MINORITY OF "RURAL" GS-1 CUSTOMERS?

A: If the removal of the GSS-EAC rates was viewed in ***isolation***, then an argument could be made that a majority of GS-1 customers is subsidizing

[4] See Questar's Response to DPU 2.1.

a small customer segment within the overall GS-1 class. However, gas utility rates in Utah are determined using average cost pricing principles and cost allocation methods based on those principles.[5] The use of average cost pricing methods typically results in DNG rates being set uniformly for the class to recover costs associated with all utility activities relating to new distribution plant investment, maintenance and operation of the system.

Q: WHAT IS THE IMPLICATION OF THE USE OF AVERAGE COST PRICING METHODS FOR A CUSTOMER LIVING IN A RURAL TOWN SUCH AS BEAVER VERSUS AN URBAN CITY SUCH AS SALT LAKE CITY?

Since DNG rates are established on an average cost basis, a dollar of revenue paid by a GS-1 customer in rural Utah helps to support new distribution plant investment across Questar's service territory. However, because the Wasatch Front is growing relatively faster than most rural areas a greater percentage of that "rural" dollar will be used to fund plant investment along the Wasatch Front. If the Commission used an incremental cost pricing methodology, then urban customers along the Wasatch Front would pay DNG rates that exceed current levels and customers in other areas would pay DNG rates below current levels.

The ratemaking reality is that a uniform GS-1 rate, developed on the basis of average cost pricing principles, has been used by Questar to collect revenue from customers across its service territory to cover the costs of building, maintaining and operating its distribution system.

Q: ARE QUESTAR'S PRESENT LINE EXTENSION RATES A FURTHER EXAMPLE OF THE EFFECT OF AVERAGE VERSUS INCREMENTAL PRICING OF UTILITY SERVICES?

A: Yes. The Company's line extension rates are currently set at a level that fails to generate sufficient incremental revenue from new customers to cover the incremental costs of extending service to those new customers. The revenue shortfall is borne by all GS-1 customers in the DNG rates that they currently pay.

Q: HOW LARGE IS THE ANNUAL REVENUE SHORTFALL ASSOCIATED WITH EXTENDING SERVICE TO NEW CUSTOMERS?

A: In its last general rate case (2002), Questar estimated a cost of $1800/per customer to provide natural gas service to a new customer. The Commission approved a stipulated increase in the Company's Contribution In Aid of Construction (CIAC) Charge from about $500/ per customer to $656/ per customer. Over the last decade, Questar extended service to about 25,000 new premises per year. This leaves an annual

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[5] Public utilities in most states also rely heavily on average cost pricing methods to establish rates to recover their authorized revenue requirement.

revenue shortfall of approximately $2.5 million[6] that is allocated among all GS-1 customers.

Q: WHAT OBSERVATION DO YOU MAKE WHEN COMPARING THE REVENUE SHORTFALL STEMMING FROM ELIMINATING THE GSS AND EAC RATES VERSUS THE REVENUE SHORTFALL RESULTING FROM QUESTAR'S STANDARD LINE EXTENSION POLICY?

A: The $2.5 million annual revenue shortfall resulting from Questar's standard line extension rate is larger than the $1.5 million annual revenue shortfall resulting from removing the GSS and EAC rates. Since strong customer growth is continuing to occur in urban areas relative to rural areas, this raises an issue of fairness for customers in communities such as Beaver, New Harmony and Panguitch. If Questar's standard line extension rate was set closer to or at cost-of-service, GS-1 rates would be lower and less revenue would need to be collected from those rural customers.

Q: WHY MIGHT A PUBLIC UTILITY COMMISSION DECIDE TO SET THE CIAC CHARGE BELOW COST-OF-SERVICE?

A: Public policy considerations have typically led Commissions to establish rates so that residential and small business customers have access to natural gas service at prices that are affordable. In other words, cost causation, albeit an important and fundamental ratemaking principle, is often tempered by other ratemaking criteria such as fairness, gradualism, administrative simplicity, etc.

Q: DO YOU BELIEVE THAT YOUR DISCUSSION OF AVERAGE COST RATEMAKING METHODS AND QUESTAR'S LINE EXTENSION POLICY SUPPORTS THE COMMITTEE'S CONCLUSION THAT THE GSS AND EAC ARE NO LONGER JUST AND REASONABLE?

A: Yes. If line extension revenue garnered from other new customers is below the actual cost of service, then GSS and EAC customers are paying a portion of all other line extension costs while also paying a surcharge designed to cover the estimated costs of their own extensions. In addition, it is unreasonable to charge these customers a separate surcharge without knowing to what extent the additional costs associated with serving them exceed the additional costs of serving other portions of the system. Deviations from average ratemaking should only occur in circumstances where the costs of serving a subset of customers are known, measurable and significantly higher than the "average" costs on which rates are based.

[6] The $2.5 million was determined using the following calculation: $1800 - $656 = $1,150 x 25,000 new premises = $28.7 million new investment included in rate base x 9% revenue conversion factor = $2.5 million annual revenue requirement impact.

Treatment of GSS-EAC Revenue Shortfall

Q: DOES THE STIPULATION ADDRESS MANY OF THE CONCERNS RAISED BY THE COMMITTEE IN ITS DIRECT AND REBUTTAL TESTIMONY?

A: Yes. This Stipulation addresses many of the concerns the Committee identified in this docket. The Stipulation does the following:

(1) Resolves the time limit issue raised by the Committee in its testimony;
(2) Establishes a separate, deferred account to prospectively track GSS-EAC revenues;
(3) Provides for the option of considering the GSS-EAC revenues in a general rate case.

Q: HOW DOES THE STIPULATION ADDRESS THE COMMITTEE'S CONCERNS REGARDING TIME LIMIT?

A: The Committee was concerned that neither the majority task force report nor the Company's Application specified time limitations relating to how long other customers would bear the GSS-EAC revenue shortfall. Paragraph 12 in the Stipulation limits the accrual of revenue into Account 191.8 to a period no longer than six years, unless those revenues have been considered in a general rate case.

Q: HOW DOES THE STIPULATION ADDRESS THE ISSUE OF ACCOUNTABILITY?

A: Paragraph 11 in the Stipulation establishes a separate, deferred account to track estimated GSS-EAC revenues. Paragraph 15 further specifies that the estimated revenues included in the account are subject to review and audit.

Q: YOU STATED ABOVE THE STIPULATION LEAVES OPEN THE POSSIBILITY FOR TREATING THE GSS-EAC REVENUES IN A GENERAL RATE CASE. PLEASE EXPLAIN.

A: The Committee's recommendation in its earlier testimony was that Questar's proposed elimination of the GSS and EAC rates be considered in a general rate case where all rate elements –expenses, revenues, rate base, cost of capital, and cost-of-service—are subjected to careful analysis and possible changes. Paragraph 14 in the Stipulation preserves the option of treating the GSS-EAC revenues accrued in Account 191.8 in a general rate case.

Q: HAS THE COMMITTEE COMPLETELY RULED OUT THE POSSIBILITY THAT THE REVENUE ACCRUED IN ACCOUNT 191.8 COULD BE AMORTIZED IN SOME OTHER WAY?

A: No. If the CET Revenue Stability Mechanism continues beyond one year and a general rate case has not been filed by October 2007, then the CET mechanism represents one alternative for amortizing the revenue balance. However, as depicted in Paragraph 16, a party could simply propose that the revenue in the account be amortized into rates independent of either the CET mechanism or a general rate case.

Q: WHAT CONCERNS COULD ENGENDER A PROPOSAL TO AMORTIZE THE REVENUE OUTSIDE EITHER A GENERAL RATE CASE OR THE CET MECHANISM?

A: First, a party may be concerned about the size of the uncollected revenue balance after a certain period of time. For example, if the revenue was accrued in the account for three years, then parties would be faced with a potentially large (e.g., $4.5 million) revenue adjustment in Questar's next general rate case. Second, a party may not support amortization in the CET mechanism because the CET is a pilot program designed chiefly to deal with lost revenue resulting from the implementation of DSM programs.

<u>Public Interest</u>

Q: DOES THE COMMITTEE BELIEVE THAT THE GSS-EAC REVENUE STIPULATION IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED BY THE COMMISSION?

A: The Stipulation eliminates the GSS and EAC rates that the Committee believes are no longer just and reasonable. It does so in a way that directly addresses many of the concerns that the Committee raised in this docket. For these reasons, the Committee believes the Stipulation is in the public interest and recommends that the Commission approve it.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes.