BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION TO INCREASE DISTRIBUTION NON-GAS RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 07-057-13

DIRECT TESTIMONY OF GARY ROBINSON

FOR QUESTAR GAS COMPANY

December 19, 2007

QGC Exhibit 7.0

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Gary L. Robinson. My business address is 180 East First South Street, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am employed by Questar Gas Company (Questar Gas or Company) as Director of State Regulatory Affairs. I am responsible for state regulatory matters in Utah and Wyoming.

Q. Attached to your written testimony are QGC Exhibits 7.1 through 7.8. Were these prepared by you or under your direction?

A. Yes.

Q. What are your qualifications to testify in this proceeding?

A. I have listed my qualifications in QGC Exhibit 7.1.

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

A. I will address the Company's calculations and recommendations with regard to the class cost-of-service study presented in this case. I will discuss proposed rate design changes and applicable tariff changes, including the proposed rate changes for various rate classes of customers.

II. COST-OF-SERVICE AND RATE DESIGN TASK FORCE

Q. Did the Company prepare a cost-of-service (COS) study in the last general rate case, Docket No. 02-057-02?

A. Yes. The Company prepared a COS study in that docket. During the process of that case, the Company met with the Division of Public Utilities, the Committee of Consumer Services, the UAE Intervention Group, the United States Executive Agencies, the Salt Lake Community Action Program, the Crossroads Urban Center, and the Industrial Gas Users Group, and arrived at a stipulation regarding the COS study and the rate design changes to be

made in that case. These parties jointly filed the Allocation and Rate-Design Stipulation and Settlement (Rate Design Stipulation).

Q. Did the Rate Design Stipulation allocate costs to the various rate classes strictly as they were calculated in the COS study in that case?

A. No. There were adjustments made to the allocations that were agreed to by all parties that participated in the Rate Design Stipulation, and the final stipulated allocations varied from the COS study results. For example, there were some adjustments to mitigate the full impact of the COS results to some rate classes. These adjustments were justified on the basis of moving closer to the fully allocated COS but not moving the entire way in one case.

A. Rate Design Stipulation and Task Forces

Q. Did the Rate Design Stipulation also request a task force study?

A. Yes. The Rate Design Stipulation specifically requested that "the issues raised by various Parties be the subject of further study and consideration by a collaborative task force." As a result of this request, the Commission created the Allocation and Rate-Design Task Force (Task Force). See the Report and Order in Docket No. 02-057-02 (2002 Order), page 40. In the 2002 Order the Commission stated that "the goal of the Task Force is to analyze a variety of rate-design and cost-allocation issues that have arisen in this case and attempt to agree on how to resolve these issues for possible application in future proceedings." The topics requested to be studied by the task force and which are being addressed in this case are:

1. **A class COS study, including allocation factors.** The Company reviewed the COS methodology used in this case with the Task Force during several meetings. I will be presenting the COS later in this testimony. Some of the allocation factors will be explained in this testimony, and the others will be discussed by Mr. Bateson in his direct testimony.
2. **The value of peaking gas available from interruptible customers during periods of interruption.** An estimated value of peaking gas available from interruptible sales and transportation customers has been made and included in the COS presented later in this testimony.

3. **Separation of the residential and commercial customers in the GS-1 class into separate classes.** In response to the discussions in the Task Force regarding the GS-1 rate class, the Company has separated the residential and commercial customers into separate rate classes. This will be discussed in more detail later in this testimony.

4. **Modification of the GS-1 rate design.** The current GS-1 rate schedule consists of two blocks with a declining rate structure and with a summer/winter differential. The Company is proposing to continue the summer/winter differential on both the residential and commercial rate schedules. It is being proposed that the residential rate schedule will consist of a single, flat rate structure and that the commercial rate schedule will consist of three blocks with a declining rate structure. This will also be discussed later in this testimony.

5. **The amount of the basic service fee (BSF).** Mr. Bateson will discuss the Company's proposed changes to the BSF in his direct testimony.

6. **Transportation rate design, including transportation service for smaller customers and the amount and applicability of administrative fees, criteria for qualification and demand charges for transportation service.** Mr. Bateson will also discuss in his testimony the Company's proposal to reduce the transportation administrative fee, which will make the transportation service available to smaller customers and the proposed demand charges for transportation customers that request firm service.

7. **The DNG summer/winter rate differential.** The summer/winter differential is proposed to be increased in accordance with the results from the COS.

Q. Did you participate in the Task Force?

A. Yes. I was one of the Company representatives to the Task Force and participated throughout the period that the Task Force met.

Q. Were all the specified issues addressed in the Task Force and have the views of the Task Force been implemented in the proposed COS?

A. The Task Force addressed all of the topics specified in the Commission Order but did not reach total agreement on all topics. Although the Task Force did not come to complete agreement on the various issues it was asked to review, there were no disagreements by the Task Force members on the basic methodology that the Company presented.

III. COST-OF-SERVICE METHODOLOGY

Q. Is the COS study you are presenting in this case consistent with what was presented to and reviewed by the Task Force?

A. Yes. The structure of the COS, the allocation factors and the computer model used in this case are the same, with some minor modifications, as to the model and factors presented to the Task Force.

Q. Will you please review the methodology used in the COS study?

A. The COS study allocates the rate base, expense and revenue data from FERC Accounts to the various rate schedules. The revenues and some expenses and rate-base accounts can be directly assigned to the rate schedules. Other rate base and expenses are allocated based on the various allocation factors that are explained in more detail below. The detail to the COS study is presented in response to Master Data Request A, question 6.

IV. COST-OF-SERVICE ALLOCATION FACTORS

Q. Please describe the allocation factors used in the COS study?

A. QGC Exhibit 7.2 lists the allocation factors used in the study and provides a description and brief discussion of why each factor is used. QGC Exhibit 7.3 shows the values for each allocation factor. The COS model is included in the revenue-requirement model, which has been provided to all parties in this case, in conjunction with filing the application. The Company is available to discuss and review the model with any party in this case at the Company's offices.

V. COST-OF-SERVICE RESULTS

Q. Have you prepared a summary of the COS results?

A. Yes. QGC Exhibit 7.4 shows the summary of the results of the COS study. Column B, lines 1 through 46, on page 1 of the exhibit comes directly from Column F of QGC Exhibit 6.2, attached to Mr. Mendenhall's direct testimony. The deficiency shown on Column B, line 50 of QGC Exhibit 7.4 comes from Column G, line 3 of QGC Exhibit 6.2. The amounts in Column B of the exhibit are then allocated by account to the various rate classes using the allocation factors explained previously. Line 52 of the exhibit shows the total COS in Column B and the COS for each rate schedule in Columns C through G.

Q. On line 51 of QGC Exhibit 7.4 you have made a "Gradualism Adjustment." Would you please explain what this is and why it is included?

A. For many years the residential and small commercial customers have been served in accordance with the GS-1 rate schedule. This rate schedule consisted of two blocks, 1) the first 45 Dth used in a month, and 2) all the usage in the month over 45 Dth. Almost all of the residential customers and the smaller commercial customers were billed at only the first block of this rate schedule. The larger commercial customers exceeded 45 Dth per month and were billed a lower rate for that usage. A full COS has not been used to establish the GS-1 rates for many years. When the two classes were separated in this case and a COS was performed for each class separately, it was determined that the commercial class, given the cost allocations, could receive an overall decrease in this case while the increase to the residential class would be about double the average overall increase. What this indicates is that the second block of the GS-1 rate was higher than could be justified by the COS and those customers getting charged at the first block rate have been the beneficiaries of an intra-class subsidy from the customers getting charged at the second block rate. The Company is proposing in this case that the rates for the GSC class not be calculated at the full COS, but that the difference between the rates currently charged the commercial customers and the COS be eliminated gradually over more than one rate case. In order to move about one quarter of the way to full COS, the Company has included the gradualism adjustment that transfers $7,500,000 or 3.5% of costs from the GSR class to the GSC class. This concept of gradualism in moving from current rates to full COS rates, is one that the Commission has

agreed with in the past, as recently as in Docket No. 02-057-02, the Company's latest general rate case. Line 4 on page 2 of QGC Exhibit 7.4 shows the approximate percentage increase being calculated for each rate schedule in the COS. As can be seen, with the gradualism adjustment of $7,500,000, the GSC class receives a percentage increase about 40% less than that received by the GSR class.

Q. Has the Company proposed any gradualism adjustments for the interruptible sales or transportation rate classes?

A. Not at this time.

A. Rate Classes Not Included In Cost-of-Service Study

Q. Have costs been allocated to all rate schedules in the Tariff individually?

A. No. The GSS, MT, NGV, FT-1 and FT-2 Special Contract (FT-2C) rate schedules have not been included in the COS study and the revenues from these classes are treated as credits to the COS and allocated to the other rate classes. (For a definition of these rate class names, please refer to Table 1 shown on pages 7 and 8 of this testimony.) This, in effect, reduces the revenue requirement for those other rate classes and is consistent with how they have been treated in past Questar Gas general rate cases.

Q. How will the rates for these rate classes be calculated in this case?

A. The Company proposes that the rates for the GSS rate schedule be calculated by maintaining the double margin rates relative to the GSR rate schedule, and that the NGV, FT-1 and MT rate schedules be calculated by applying the average overall percentage change to the COS to existing rates. The FT-2C is a special contract that came to the Company with the purchase of the Utah Gas system in 2001. These contract rates will remain the same until the terms of the FT-2C special contract expire.

VI. PROPOSED CHANGES TO CURRENT RATE SCHEDULES

A. Rate Class Naming Convention

Q. Are you proposing to change the names of some rate classes?

A. Yes. The naming convention the Company has been using for many years does not always describe the current customers in the rate class and is out of date. For example, the Tariff includes an I-4 rate class, but the I-1, I-2 and I-3 rate classes, which used to be in the Tariff, have been removed. The names of the rate schedules do not affect the qualifications or other tariff provisions of the various rate schedules. However, in renaming the rate schedules, the Company is proposing to make the names more consistent and representative of the service being provided.

Q. Please summarize what the Company is proposing regarding naming of the rate schedules?

A. The following table shows the current rate schedules included in the Questar Gas Company Tariff, PSCU No. 400 (Tariff) and the Company's proposal to rename or eliminate the schedules in this case.

Table 1
Rate Schedules in Questar Gas Company Utah Tariff

Current	Proposed
GS-1 (General Service #1)	**GSR** (General Service Residential)
	GSC (General Service Commercial)
GSS (General Service South)	**GSE** (General Service Expansion)
F-1 (Firm Service #1)	**FS** (Firm Service)
F-3 (Firm Service #3)	Eliminated
F-4 (Firm Service #4)	Eliminated
NGV (Natural Gas Vehicles)	**NGV** (Natural Gas Vehicles)
I-4 (Interruptible Sales #4)	**IS** (Interruptible Service)
IS-4 (Interruptible South Sales #4)	**ISE** (Interruptible Service Expansion)
MT (Municipal Transportation)	**MT** (Municipal Transportation)

Table 1 Rate Schedules in Questar Gas Company Utah Tariff	
Current	**Proposed**
FT-1 (Firm Transportation #1)	**FT** (Firm Transportation)
FT-2 (Firm Transportation #2)	**TS** (Transportation Service)
IT (Interruptible Transportation)	
IT-S (Interruptible Transportation South)	**TSE** (Transportation Service Expansion)
E-1 (Emergency #1)	**ES** (Emergency Service)
T-1 (Temporary #1)	Eliminated

B. Split of GS-1 Class Into Residential and Commercial

Q. Did the Task Force make any recommendations regarding separating the GS-1 rate schedule into residential and commercial sectors?

A. The Task Force spent a significant amount of time reviewing this issue, however, there was no consensus.

Q. Has the Company proposed they be separated in this case?

A. Yes, as can be seen in QGC Exhibits 7.3 and 7.4, the Company has separated the residential and commercial customers into the GSR and GSC rate schedules and calculated a COS for each class of customers separately.

Q. What was the basis for separating the GS-1 class into residential and commercial customers?

A. The state of Utah has established separate sales tax rates for residential and commercial customers as is shown in Section 10.01 of the Tariff. The sales tax rates vary by county, and, in some circumstances, by city within a county. For the Company to calculate the proper sales taxes from the customers it serves, every GS customer has been classified in the billing system as either a residential or commercial customer. The GS-1 class was separated into the GSR and GSC classes based on this sales-tax classification.

Q. Are the customers in the GSC class smaller or larger than the GSR customers?

A. There are both larger and smaller GSC customers. The commercial class of customers is a much more diverse group than the residential group. The variation in residential customers is based mostly on the size of the residence. Almost all of the residential customers have space and water heating appliances and a significant portion have additional appliances for clothes drying and cooking. On average, the residential customers class is a homogenous group. The commercial customers, however, vary from small retail establishments, which may have only space heating, similar to a residential customer, to large hotels, malls, schools or restaurants, having significant natural gas requirements for space heating, heating pools or cooking. Because the small commercial customers are very similar to the residential customers in their usage patterns and uses of natural gas, the Company is proposing that the first block of the GSC rate schedule be the same rate as the GSR rate schedule. This will be discussed further in the rate design portion of this testimony.

C. Changes to the GSC and F-1 Schedules

Q. Has the Company proposed any changes to the classification or provisions for the GSC and F-1 rate schedules?

A. Yes. In the past, the GS-1 rate schedule was designed for residential and small commercial customers with generally low load factors. One of the limitations of being on the GS-1 schedule has been a maximum daily use of 1,250 Dth. This limitation has kept very large customers off this rate schedule. For customers to receive service on the F-1 rate schedule, they have been required to have a 40% load factor and a maximum daily usage of 1,250 Dth or less. The F-4 rate schedule is the only other firm-sales rate that has been available to Questar Gas customers, and it was designed for large industrial customers. To qualify for the F-4 rate, a customer has been required to have a load factor of at least 80% and pay a minimum annual DNG charge of $38,700.

The effect of these limitations is that a customer who has a maximum daily use greater than 1,250 Dth and a load factor less than 80%, has not qualified for firm sales service. To receive firm service from Questar Gas, such a customer needed to qualify for firm transportation service on either the FT-1 or FT-2 rate schedules. The FT-2 rate schedule

requires a load factor of at least 50%, includes an annual administrative fee of $6,800 and has a minimum annual DNG charge of $23,200. The FT-1 schedule has an annual minimum usage requirement of 100,000 Dth as well as the administrative fee of $6,800.

The Company has received some requests for firm service from customers that fall in the gaps between these firm-service schedules. In order to remedy this situation, the Company proposes to raise the maximum daily usage limit of 1,250 Dth on the GSC and F-1 rate schedules to 2,500 Dth per day, while maintaining the 40% load factor requirement for the F-1 schedule. In the Company's experience, a customer with demand requirements approaching 2,500 Dth per day will naturally migrate to transportation service. The Company currently has no firm sales customers that require a maximum daily usage approaching 2,500 Dth.

D. Elimination of the F-3 Schedule

Q. What is the Company proposing with regard to the F-3 rate schedule?

A. The F-3 schedule is currently used for interruptible sales and transportation customers to buy firm standby service on Questar Gas' distribution system. With the proposed changes to the transportation schedules discussed later in this testimony, the need for transportation customers to use the F-3 schedule will be eliminated. In addition to the F-3 schedule, Tariff Section 8.01 currently allows sales customers to "ribbon" usage between two different rate schedules for usage on the same meter. For example some I-4 customers contract for standby firm service on the F-3 schedule, while others have chosen to have a contracted level of service each month billed at the F-1 rate, while all additional usage through that meter during the month is billed at the I-4 rate. By eliminating the F-3 schedule, the IS customers that currently use the F-3 for firm standby will need to contract for a level of "ribboned" firm service on the new FS or GSC rate schedules.

E. Elimination of the F-4 Schedule

Q. What is the Company proposing with regard to the F-4 rate schedule?

A. The F-4 rate schedule is a little-used industrial-firm-sales rate schedule. Since the introduction of transportation service, few customers have requested service on the F-4 rate.

Currently the Company has one customer on this rate schedule. The current F-4 customer uses the allowance to ribbon usage between rates and has the first 1,000 Dth usage per day billed at the F-4 rate and the remainder of the usage in any given day on the Interruptible Transportation (IT) rate schedule. The Company is proposing to charge transportation customers directly for their firm demands on a new Transportation Service (TS) rate schedule. As a result, transportation customers will not be allowed to ribbon usage between a firm sales rate and the TS rate. This will eliminate the need for the F-4 rate schedule. Therefore, the Company is proposing to eliminate the F-4 rate from the Tariff. The allowance for sales customers to ribbon their usage is being left in Section 8.01 of the Tariff. If the existing F-4 customer desired, it could ribbon its usage on the proposed IS and the FS or GSC rate schedules instead of remaining a transportation customer.

F. Changes to Interruptible Sales Schedules

Q. Did the Task Force review the Company's transportation rate schedules with regard to designing a small-transportation rate schedule?

A. Yes. However, all Task Force parties did not agree on the best way to design a schedule.

Q. Has the Company proposed a small-transportation rate in this case?

A. Not explicitly. However the Company is proposing changes to the transportation administrative fee (Admin Fee) that will allow smaller customers to move to transportation service if they so choose. Mr. Bateson will discuss the Admin Fee in more detail, but in summary, the Company is proposing to reduce the primary fee charged to the first transportation delivery point on the Questar Gas distribution system from $6,800 per year to $4,500 per year. The secondary Admin Fee, charged to all other transportation delivery points by a single organization, is proposed to be reduced to $2,250, from the current $2,550.

The customers who would most likely make use of such a transportation schedule are the current interruptible sales customers on the I-4 and IS-4 schedules and some of the larger firm sales customers on the F-1 schedule. The Company contacted some of these customers to determine the level of interest in a small transportation rate and found little interest. To the contrary, some of these customers indicated that they are much more comfortable with

the current sales options in which they do not have to worry about arranging for their own gas supplies and making nominations to the Company for their daily usage.

Q. Has the Company proposed any changes to the current I-4 and IS-4 rate schedules?

A. Yes. The Company is proposing to change the block breaks for these schedules. The current block structure is as follows: Block 1: the first 875 Dth; Block 2: the next 121,625 Dth; and Block 3: all over 122,500 Dth. This block structure has been in place for many years and was established when the size and nature of the interruptible sales class included many of the customers that are now transporting on the Questar Gas system. Given the current I-4 customers, these blocks do not make much sense. Almost all customers go through the first block every month, and no current I-4 customer goes all the way through the second block. To make the blocks more meaningful, and to have the rates follow the cost curves more closely (this will be discussed in more detail later in this testimony), the proposed blocks are as follows: Block 1: the first 2,000 Dth; Block 2: the next 18,000 Dth; and Block 3: all over 20,000 Dth.

G. Changes to the Transportation Rate Schedules

Q. Has the Company proposed any changes to the transportation rate schedules?

A. Yes. Currently transportation customers must select between interruptible and firm transportation service on the IT and FT-2 rate schedules. In this case, the Company is proposing to restructure the transportation service rate schedules. Instead of having to select whether to transport all of their gas supplies on firm or interruptible schedules, transportation customers will be able to transport their gas supplies on the TS rate schedule, on an interruptible basis, and contract specifically for a level of firm service. By separating the firm demand charges from the interruptible transportation charges, customers can be billed more accurately for the services they actually need and they will have more flexibility in contracting for service. In addition, the Company will be better able to manage the design and operation of the distribution system because customers will contract specifically for the level of firm daily service they really need.

Q. How have the demand charges on the new TS and TSE schedule been calculated?

A. Mr. Bateson will discuss the calculations of these charges in his testimony.

Q. Will transportation customers continue to pay an Admin Fee?

A. Yes. However, as I have just explained, the Company is proposing to reduce the charge to $4,500 per year, down from the $6,800 that was stipulated to in Docket No. 02-057-02. Customers with more than one end-use site will be billed $2,250, down from the current $2,550, for each additional site.

Q. Has the Company updated the support for the Admin Fee?

A. Yes. Mr. Bateson is providing the support for this fee in his direct testimony.

Q. Will the restructuring of the transportation rate schedules cause some customers to want to change the rate they are on?

A. It is likely the changes proposed by the Company in this case will cause some customers to want to change rate schedules. During the months this case is being considered by the Commission, it is important for customers to consider which rate schedules they want to utilize and the level of firm demand for which they want to contract. This will allow the Company to design the rates for the number of customers that will be on those rate schedules during the rate-effective period. The Company will coordinate with its large commercial and industrial customers to make them aware of these proposed changes and help each determine its appropriate rate schedule prior to the end of this case so that when the Commission's final decision regarding the revenue-requirement portion of this case is complete, the Company can design rates to reflect the expected usage in each rate schedule on a going-forward basis.

Q. Are customers free to switch between sales and transportation and between interruptible and firm sales service at any time?

A. No. Large commercial and industrial customers generally sign up for service on Questar Gas' system on an annual basis, from July to June each year. Knowing what rate schedules customers will be served on during the heating season is critical as the Company plans and procures sufficient gas supplies to serve the customers. For example, if interruptible sales or transportation customers are allowed to move to firm service during the middle of the heating

season, the gas supplies that have already been contracted for during the heating season may not be sufficient to serve the firm demand during a peak-day, or even during periods of normal weather during the heating season. If this were the case, the Company would have to increase its winter delivery capacity by purchasing high-priced peaking gas. This would increase gas costs to all customers. The Company proposes that customers who want to change rate schedules must notify the Company by at least March 1 of each year and the change would be effective on July 1 of that year for a one-year period. The Tariff language needed to implement this proposal is included in QGC Exhibit 9.5 attached to Mr. Bakker's direct testimony.

Q. Are there any additional requirements for customers who want to transfer from interruptible sales or transportation service to firm sales service?

A. Yes. The gas-cost rate for customers on firm-sales service includes the amortization of balances in the gas-balancing account (Account 191). Customers' shifting rate schedules could potentially transfer to firm-sales service while building up an under-collection in the gas-balancing account and then transfer back to interruptible sales or transportation and avoid paying the amortization of the balance. To offset this scenario, the Company has been requiring customers who transfer to firm sales service to remain there for at least two years. This has been done through contracts. To be consistent with this practice, customers moving from transportation or interruptible sales to firm sales service will now be required by Tariff to stay on the firm rate schedule for at least two years. Thereafter, they can switch back to transportation service by requesting a change by March 1 of any given year, with the change effective during July of that same year.

VII. RATE DESIGN

Q. What were the guiding principles the Company used in preparing the proposed rate design?

A. During the Task Force meetings, the Company made a presentation, outlining the basic concepts of COS and rate design and the various tools available when designing rates. Included was a list of ten criteria of a sound rate structure taken from the book "Principles of Public Utility Rates" by James C. Bonbright, Albert L. Danielsen and David R. Kamerschen

(Second Edition, March 1988). The ten criteria, or attributes, are jointly referred to as the "Bonbright Principles" and are a list of sometimes conflicting criteria that must be balanced in order to arrive at the most fair and acceptable cost allocation and rate design. The Task Force discussed these principles in detail. The Company has attempted to take into consideration the Bonbright Principles when designing the COS and rate design in this case. Shown in Table 2 is the list quoted from pages 383-384 of the book:

Table 2
Bonbright Principles

1. Effectiveness in yielding total revenue requirements under the fair-return standard without any socially undesirable expansion of the rate base or socially undesirable level of product quality and safety.

2. Revenue stability and predictability, with a minimum of unexpected changes seriously adverse to utility companies.

3. Stability and predictability of the rates themselves, with a minimum of unexpected changes seriously adverse to rate-payers and with a sense of historical continuity. (Compare "The best tax is an old tax.")

4. Static efficiency of the rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use:
   (a) in the control of the total amounts of service supplied by the company;
   (b) in the control of the relative uses of alternative types of service by ratepayers (on-peak versus off-peak service or higher quality versus lower quality service).

5. Reflection of all of the present and future private and social costs and benefits occasioned by a service's provision (i.e., all internalities and externalities).

6. Fairness of the specific rates in the apportionment of total costs of service among the different ratepayers so as to avoid arbitrariness and capriciousness and to attain equity in three dimensions: (1) *horizontal* (i.e., equals treated equally); (2) *vertical* (i.e., unequals treated unequally); and (3) *anonymous* (i.e., no ratepayer's demands can be diverted away uneconomically from an incumbent by a potential entrant).

7. Avoidance of undue discrimination in rate relationships so as to be, if possible, compensatory (i.e., subsidy free with no inter-customer burdens).

8. Dynamic efficiency in promoting innovation and responding economically to

changing demand and supply patterns.

9. The related, practical attributes of simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application.

10. Freedom from controversies as to proper interpretation.

Professor Bonbright specifically mentions in the book that the "sequence in which the ten attributes are presented is not meant to suggest any order of importance." As I mentioned, in some instances, the principles are conflicting. For example, the third principle relates to designing rates that are simple, that customers can understand and accept, and that the Company can administer efficiently. This principle is often in conflict with the sixth principle that relates to a COS and rate design that is fair to the various types and sizes of customers. In order to follow the sixth principle exactly, the Company would need a multitude of rate schedules, fees and rates, which would be very complicated and difficult to administer and explain to customers. In such instances, the Company has weighed the various principles and struck a balance among them.

Q. Have you calculated the proposed rates that correspond to the revenue requirement calculated by Mr. Mendenhall and the COS you presented earlier in this testimony?

A. Yes, a summary of the proposed rates, changes to block structures, and rates are shown in QGC Exhibit 7.5. These rates are shown in Tariff format in Mr. Bakker's exhibit, QGC Exhibit 9.5. The rate design model used to calculate these rates has been provided to all parties in this case as part of the filing and in response to Master Data Request A, question 7. The Company proposes the Commission schedule a technical conference to discuss, review, and explain the model and cost curves.

Q. Will you please explain the methodology used to design the proposed rates?

A. The first step in the rate design process is to categorize the components of the COS (O&M expenses, depreciation, taxes, and return on rate base) into functional categories. The four categories are as follows:

1. **Customer Related:** Those costs that are driven by the number of

customers served.

2. **Network Related:** Those costs that are driven by the distribution network required to serve customers.

3. **Dth Throughput Related:** Those costs that are driven by the amount of natural gas that flows through the distribution system.

4. **Demand Related:** Those costs that are driven by the peak-day requirements to serve firm customers.

A. Development of Cost Curves by Rate Schedule

Q. What is the next step in the process?

A. The next step in the process is to develop an equation using the categorized costs that can be applied to the projected customers, usage and meter categories to determine the cost per Dth in each rate schedule at a continuum of usage levels. These costs per Dth are graphed to illustrate the cost curve for each rate schedule. Rates are then designed, including fixed charges, volumetric rates, declining block rate structures and minimum bills, to have the revenue collected per Dth follow the cost per Dth as closely as possible. This process is explained in more detail later in this testimony. QGC Exhibit 7.6 shows the cost curves for the GSR, GSC, IS, FS and TS rate schedules and the revenue per Dth collected from the proposed rates. As can be seen from the GSR graph, the use of a single block, flat rate makes the job of designing rates to follow the cost curve impossible. Because the costs associated with providing service to a customer (main, service line, meter and regulator costs) are fixed in nature over a fairly broad range (i.e., most residential customers, regardless of their size, have the same size of service line, meter and regulator), larger customers have more Dth to spread those fixed costs over and, as a result, have a lower cost per Dth. The use of a flat rate design does not take this into account, and results in high usage residential customers generally paying more than their calculated cost per Dth and low usage residential customers generally paying less than their calculated cost per Dth. However, there are reasons for implementing a flat rate design that justify its use even though the revenues do not follow the cost curve exactly. For example, following the fourth and eighth Bonbright Principles, the use of a flat rate design is much easier for customers to understand, and it encourages energy conservation and efficiency.

B. Determination of the Number of Blocks and the Size of Blocks by Rate Schedule

Q. Is the Company proposing any changes to the block structure of the rate schedules?

A. Yes. As has already been briefly discussed, the GSR, GSC and IS block structures will be different than the previous GS-1 and I-4 block structures. QGC Exhibit 7.5 provides a summary of the previous block structure by rate schedule and the proposed block structures.

Q. What is the basis for proposing the new block structures?

A. The goal of establishing block rates is to calculate rates that follow the cost curves as closely as possible, without creating overly complicated rate structures. There has been an effort to standardize the block breaks throughout the rate schedules to be more consistent. Customers move from one schedule to another schedule for many reasons and the Company is proposing that the block breaks be consistent for such customers regardless of which schedule they are on.

Q. Have you proposed a different block structure for the GSR rate class?

A. Yes. The block structure used for the GS-1 class for many years has been designed with two blocks. The first block consisted of the first 45 Dth used in any month. The second block was all usage in a month that exceeded 45 Dth. Few residential customers ever exceeded the first block and, therefore, the second block was designed primarily for the commercial customers in the GS-1 rate class. For the GSR rate schedule, the Company is now proposing to design a one-block, flat rate for all usage in a month. This method of rate design is much easier for residential customers to understand and has the added benefit of helping to promote energy efficiency by sending a consistent price signal for all the gas used on the GSR rate.

Q. Are there differences in the billing components of large GSR customers compared to the smaller GSR customers?

A. Yes. As explained by Mr. Bateson, large residential customers that require meters with more capacity than a regular residential meter will pay a larger BSF amount.

Q. Have you proposed a different block structure for the GSC rate class?

A. Yes. The current GS-1 rate class has two blocks consisting of the first 45 Dth for the first block and all over 45 Dth for the second block**.** The Company is now proposing to stop the second block at 200 Dth per month and include a third block for all usage over 200 Dth per month. This is being done to make the GSC block structure consistent with the FS rate schedule. Some customers will be required to move from the GSC to the FS rate schedules, and vice-versa, because of the 40% load factor requirement on the FS schedule. The inclusion of the third block in the GSC schedule makes moving from schedule to schedule more seamless for the customers.

Q. What is the difference between the rates calculated for the GSR and GSC rate classes?

A. As has been pointed out, the GSR class is composed of a relatively homogenous group of customers with similar appliances, end uses and load factors. The GSC group is a much more diverse group with different usage patterns. However, it can be seen that most of the smaller commercial customers, that use natural gas primarily for space and water heating, are very similar in size, end use, and load factor to residential customers. For that reason, the Company is proposing to charge the same rate for the first block of the GSC rate schedule as the flat rate in the GSR rate schedule. This will eliminate some controversy and the desire of some residential or small commercial customers to try and move from one rate schedule to another. The Company recognizes that the use of the tax code in the Company's system is an arbitrary method of categorizing some customers as either residential or commercial. For example, there are many residential customers that operate a business out of their home. The Company is unaware of these activities, and unless the customers identify themselves as commercial customers, they will be included as residential customers. In addition, there are many small commercial customers (small offices or retail establishments), that have the same usage patterns as residential customers. For these reasons, the Company proposes to keep the GSR and the first block of the GSC rates linked.

As has been pointed out, the current GS-1 rate design has included an intra-class subsidy from larger customers to smaller customers. Because the commercial customers that are being moved to the GSC rate are, on average, somewhat larger than the residential

customers, the winter second block rate for the GSC schedule is 40% lower than the winter first block rate and the winter third block rate is 407% lower than the second block rate.

Q. Have you proposed a different block structure for other rate classes?

A. Yes. To standardize the block structure throughout the Tariff, the Company proposes to have applicable block breaks in all the rate schedules at 200 Dth, 2,000 Dth, 20,000 Dth, 100,000 Dth and 500,000 Dth per month. Not all the rate schedules will have all the block breaks, only those that are applicable to the size of customers in the rate schedule.

C. Design Rates and Fees to Collect the Required Revenue by Rate Schedule

Q. What is the final step in the rate-design process?

A. The Company has various fees and rates to apply on customers' bills. The main billing components are as follows:

1. **Volumetric Rates.** These are rates that are applied to the monthly volume of gas used by a customer. They are further divided into declining blocks as explained earlier.
2. **Basic Service Fees.** These are fees that are determined for a customer based on the type of meter installed for the customer and the level of pressure of the gas flowing through the meter.
3. **Administrative Fees.** These are fees charged to transportation customers designed to recover the additional costs incurred by the Company solely to serve these customers.
4. **Summer/Winter Rate Differential.** This is the differential between rates charged during the winter months (November through March) and the rates charged during the summer months (April through October). This rate differential is useful to compensate high-load-factor customers (those who use gas more evenly during the year) with lower rates than for low-load-factor customers (those who use gas mostly during the peak winter season).

5. **Demand Charges for Transportation Service.** These charges will allow transportation customers to contract annually for a fixed firm capacity per day, available anytime.

The Company uses these billing components to design rates that match the projected revenues in a rate schedule as closely as possible to the cost curves that were calculated in QGC Exhibit 7.6. To design an exact fit with the cost curves, the Company would have to increase the number of blocks and fees in the schedules. The proposed rate design is a compromise between matching the allocated costs for a rate schedule and developing a set of rates that is simple to administer and easy for the customer to understand. The Company must also be aware of designing rates that do not provide unintended consequences such as calculating rates that provide incentives for customers to change rate schedules to lower their bills at various usage levels. To avoid such problems, the Company has developed rules that dictate the relationship between rate schedules and among the blocks in a rate schedule, eliminating this type of consequence. QGC Exhibit 7.7 shows the revenue curves for all the rate schedules on one graph. This graph is created to verify that the revenue curves do not cross each other at any point of relevant usage in the rate schedules. If the revenue curves did cross, there would be an unintended advantage for some customers to change rate schedules if their usage was in that range. As can be seen, the Company has successfully designed rates that do not cross.

Q. Is this the same rate-design methodology that was presented to and reviewed by the Task Force?

A. Yes it is.

D. Changes to Basic Service Fees

Q. Is the Company proposing changes to the BSF?

A. Yes. Mr. Bateson will discuss the details of the calculations of the proposed BSF in his direct testimony. QGC Exhibit 7.5 provides for each rate schedule a summary of the current and proposed BSF.

VIII. PROPOSED RATES

Q. Have the rates calculated from this case been presented in Tariff format?

A. Yes. QGC Exhibit 9.5 attached to Mr. Bakker's testimony shows the proposed Tariff rate schedules in legislative and proposed format. These Tariff sheets contain the rates that will recover the test-year costs from the various customer classes. The rates were derived from the test-year data and information found in the Direct Testimony and exhibits of Mr. Mendenhall and Mr. Bateson, and the cost-allocation and rate-design methods I have described above.

Q. Have you calculated the impact of these rates on the typical residential customer?

A. Yes, I have. QGC Exhibit 7.8 shows the impact of this proposed rate increase. The annualized change in rates calculated in this case is an increase of $47.06 or 7.16% per year for a typical Utah residential customer on the GSR rate schedule using 80 Dth per year. The projected month-by-month changes in bills are shown in Exhibit 7.8.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)

) ss.

County of Salt Lake)

I, Gary L. Robinson, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

_____

Gary L. Robinson

SUBSCRIBED AND SWORN TO this ___ day of December 2007.

_____

Notary Public