BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to Increase Distribution Non-Gas Rates and Charges and Make Tariff Modifications	)))	DOCKET NO. 07-057-13

DIRECT TESTIMONY OF CHARLES E. JOHNSON

on behalf of

AARP, Salt Lake Community Action Program and Crossroads Urban Center

August 18, 2008

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Charles E. Johnson. My business address is 7B Pleasant Blvd #1086, Toronto, Ontario M4T 1K2.

Q. By whom are you employed?

A. I am an independent consultant.

Q. For whom are you submitting testimony?

A. I am testifying on behalf of AARP, Salt Lake Community Action Program (SLCAP), and Crossroads Urban Center.

Q. What are your qualifications for testifying in this proceeding?

A. I have received extensive training in various aspects of utility accounting, utility planning and utility practices over the years and have a Master's Degree and Ph.D. in Mathematics. I have met the requirements to be a Certified Depreciation Professional by the Society of Depreciation Professionals. I have taught short courses on utility matters to the Staff of several State Utility Commissions, to the staff of a group of National Commissions of Caribbean Island Nations, and to various U.S. Department of Energy and National Laboratory Staff. I have been involved in utility proceedings as a consultant for more than 30 years and

have testified as an expert in proceedings before utility commissions and courts throughout the country. I have testified in several cases before the Utah Public Service Commission, including cases involving Rocky Mountain Power Company (as Utah Power and Light Company and PacifiCorp), Questar and Qwest.

PURPOSE AND SUMMARY

Q. What is the purpose of your testimony?

A. I have been asked to review the Questar filing and make recommendations about the issues that affect Residential customers, especially those affecting low-income customers and seniors. In meeting that objective, I will address the split of the GS-1 rate schedule into Residential (GSR) and Commercial (GSC) components, the proposed revenue spread that assigns the revenue deficiency to the rate classes, Questar's basis for establishing the Residential rates, the proposed Residential Basic Service Fees, the Security Deposit proposal of Questar, and the proposed After-hours Reconnection Fee. I also have some comments about Questar's approach to presenting its case in this proceeding.

Q. Has Questar proposed many changes in its procedures for establishing rates for its customers?

A. Yes. There are a great many changes that Questar has utilized and proposed in this proceeding. I will address only a few of these changes.

Q. What recommendations do you make?

A. I make the following recommendations:

1. The Commission should not divide the GS-1 Class into Residential and Commercial classes (GSR and GSC) based on the tax coding in Questar's database. It should defer a decision on separating the GS-1 class to the next rate case and direct the Company to provide more information on the customers that would be allocated to each class.

2. The current GS-1 customers should all receive the same increase in cost per Dth for all blocks of gas.

3. Questar should file a complete case and not leave aspects to be determined at some other time. In particular, changes to the CET revenue collection should not be included in a general rate case without testimony addressing that issue in the case, and in the future the Commission should allow no changes that are not described in testimony. The Commission can direct Questar appropriately in order to deter similar actions in future cases.

4. The Commission should maintain the current Basic Service Fee (BSF) level and recover the additional revenue through increases in the volumetric charges. I present a demonstration rate consistent with this recommendation.

5. The increase in security deposits proposed by Questar should not be implemented.

6. The Commission should require Questar and interested parties to develop a proposal helping keep low-income customers on the system and making a contribution to Questar's fixed costs.

7. The after-hours reconnection fee policy should not be implemented, but if it is, it should be modified to exclude safety-related issues.

DIVISION OF GS-1 CLASS

Q. What is the current structure of Questar's customer classes for rate schedules?

A. Most of the retail sales and revenue are from the GS-1 class that Questar proposes to split into two classes, GSR for Residential customers and GSC for Commercial customers. These two combined account for about 96% of the total Utah DNG (Distribution Non-Gas) revenue under the Questar allocation. Other rate schedules are allocated only about 4% of the DNG total revenue, but consume over 60% of the volume of gas. These others are typically customers using large volumes of gas and they include interruptible and firm sales and transportation customers. As can be seen from the percentage of the distribution costs that Questar has allocated to them, they use little of the investment in smaller mains, feeders and services. Thus, the GS-1 class consists of most of the smaller customers on the Questar system and some of the larger ones.

Q. Should the GS-1 class be divided into separate classes?

A. Yes. The GS-1 class now comprises most of Questar's customers and revenue. Currently, the only distinction in costs for customers in this class is the declining block rate that provides lower costs for larger customers. It should be possible to separate the GS-1 class into smaller, more homogeneous groupings of gas customers rather than the large number of customers taking service under the GS-1 schedule.

Q. What basis has Questar used to separate the GS-1 class into GSR and GSC customers?

A. Questar has put the customers tagged as residential for tax purposes in the Questar billing system into the GSR class and those tagged as commercial customers into the GSC class.

Mr. Robinson does not discuss the basis for the origin of these tax identifications. If it is self-identification, some customers may have identified themselves improperly to take advantage of the tax difference. Utah law and zoning restrictions permit residential dwellings to be used as commercial space for certain kinds of business. Some of these commercial businesses in residential dwellings could be very large users of natural gas and not like other Residential customers. Depending on the tax status in the Questar database, these customers could be in either the GSR or the GSC class. Some of the customers in the proposed GSR class are exceptionally large gas consumers, even in summer, which leads me to believe that the tax coding on some of the customers is incorrect.

Q. Is this an appropriate basis on which to separate the GS-1 class?

A. No, the tax code in the Questar billing database is not an appropriate basis on which to separate the GS-1 class.

It may be that the size of the customer, or some other criterion, or set of criteria, may be a better means of separating the customers into more homogeneous classes. In fact, Mr. Robinson claims that "the small commercial customers are very similar to the residential

customers in their usage patterns and uses of natural gas." This being the case, the cost allocations for these two groups should also be similar and there is little justification for separating them, nor of combining small commercial customers that resemble residential customers with large commercial customers that have significantly different usage patterns.

Not only are some Commercial customers similar to Residential customers, but some of the customers in the proposed GSR class have extremely high usage levels. The average Residential usage in winter is about 11.4 Dth per month, but nearly 3% of the winter volume is in the tail block of over 45 Dth per month. In order to fall into the tail block, these customers use four times the average amount in winter and even in summer, there are customers using over 45 Dth per month, which is 14 times the average use. These are not typical Residential customers and one would not expect them to be in the same customer class as average Residential customers.

While the customers with commercial tax coding include some large customers, their average usage should be compared to those larger customers in the GSR category. The average GSC customer's winter usage is 66 Dth, only a little larger than some of the GSR customers using over 45 Dth. In summer, the average GSC customer uses only 17 Dth, substantially less than those GSR customers consuming over 45 Dth. Lastly, Questar has proposed a third block of usage greater than 200 Dth for the GSC rate and over a third of the winter usage is in this block, so it must expect that current GS-1 customers have this level of usage. It should be

clear that the two proposed classes do not consist of homogenous customers. Calculations of these numbers are based on the billing units in the Revised Ordered model and are shown in Exhibit___(CEJ-1).

Q. What is your recommendation for separating the GS-1 class?

A. The evidence leads me to conclude that the GS-1 class should not be separated based on the tax code in the Questar database, as there is not enough evidence presented to determine if this is the best methodology to allocate customers to new rate classes. Mr. Robinson mentions the inability of the Allocation and Rate Design Task Force ordered in Docket 02-057-02 to reach consensus on the matter of separating the GS-1 class. I recommend that the Commission direct the Company to provide the Commission with more information about the basis for the tax coding and detailed information about the customers that would be in the different rate classes. I also recommend that the decision on splitting the GS-1 class be deferred.

QUESTAR'S PROPOSED REVENUE SPREAD

Q. What impact would the use of a different means of separating the GS-1 class have on the development of rates in this proceeding?

A. Questar has based its cost allocations on the separation of the GS-1 class into Residential and Commercial customers using the tax coding of the customer. Use of different criteria for separating the customers would require a revamping of the cost model to match the characteristics of the customers in those different classes. This would make using the Questar

proposal for allotting the Revenue Spread among GS-1 customers inappropriate. For the other classes, the study may be appropriate. But it is inappropriate for the proposed GSR and GSC classes and should not be used.

Q. What has Questar proposed for the revenue spread in this proceeding?

A. Questar has provided numerous versions of its revenue requirements/rate design model, some at the request of Commission Staff or parties to the proceeding. I will address four of these, identified as Originally Filed Dec 07, Settlement 06/23/08, Ordered 6/27/08 and Revised Ordered 6/27/08. Most of these have varying levels of a claimed revenue deficiency, as is shown in Exhibit___(CEJ-2). I assume the Company has been attempting to be responsive to questions by providing various model results to help the parties analyze the proposal. However, this has led to a confusing situation in which only the originally-filed model is supported by testimony and tariff sheets. Tariff sheets alone were provided for rates at the ordered revenue level, but no testimony supporting the tariff sheets was filed. The tariffs in these tariff sheets increase the volumetric charges and not the BSFs, which is not consistent with the rates in the latest model and Company testimony.

To add to the difficulty in determining the impact of the Questar rate design, the calculations of the revenue deficiency utilize one set of weather-normalized consumption levels and exclude the Conservation Enabling Tariff (CET) revenue, while the rate design relies on a different weather-normalizing period and includes the CET revenue. In response to AARP

Data Request 3.03, Mr. Mendenhall observes that "... and the CET Amounts will be recalculated to match the new rates." Exhibit___(CEJ-3) contains Questar's response to AARP Data Request 3.03.

While Questar has not recalculated the CET for this proceeding, the CET account revenue is amortized by a uniform block increase to the DNG volumetric rates[1], but Questar proposes to recover most of the revenue increase (including the CET revenue) through increases in fixed charges (the Basic Service Fee). The original filing proposed to increase BSF revenue by $25.5 million, a 53% increase. The latest model, the Revised Ordered model, has an increase of $22 million (43%) in Residential BSF revenue, even though the proposed Residential increase is only $7.4 million. The increase in revenue produced by the increase in the BSFs exceeds the claimed deficiency in every one of these models. It is nearly three times the proposed Residential class revenue increase in the latest Questar model. I will have more to say about the proposed BSFs in the section of my testimony on Residential rate design.

The shift of cost recovery from volumetric charges to fixed charges is improperly concealed by Questar's presentation and lack of testimony describing the calculations. There is no testimony covering what is presumably the current proposed rate designs and no proposed tariff sheets identifying the Company's rate proposal. In response to an e-mail inquiry, Mr. Bakker responded that updated tariff sheets would not be filed until Questar filed rebuttal

[1] Questar Tariff 2.11 Conservation Enabling Tariff

testimony in September. Because of this lack of specificity about its proposed rates, Questar has left open several possible interpretations as to exactly what rates it will advocate at the hearing.

Q. How do you recommend that the revenue be spread to the rate classes?

A. At this time, I recommend that the revenue increase for the GSR and GSC customers be determined by equal increases in the GS-1 volumetric charges. I will more fully discuss this in the Rate Design Section of my testimony. The results of Questar's separation cannot be relied on and its cost-of-service study is based on that questionable separation.

Q. Do you have any other recommendations about Questar's filing?

A. Yes. In my opinion, Questar's filing should be internally consistent and not use different billing units for different portions of its case. I understand that establishment of a new CET charge requires a different set of numbers, but Questar has left this step incomplete. I recommend that the Commission direct Questar to file complete cases in the future and provide testimony on all of its proposals.

RESIDENTIAL RATE DESIGN

Q. What changes in customer-related charges has Questar proposed?

A. In the testimony of Mr. Bakker, Questar has proposed three changes to customer-related charges – one, increasing the security deposits for customers with less than 12 months

satisfactory credit history with Questar; two, doubling the security deposit for customers with poor credit history; and three, instituting an after-hours reconnection fee. A fourth customer-related change, the increase in the customer charge, or basic service fee (BSF), is presented by Questar witness Mr. Robinson.

Basic Service Fee

Q. What changes has Mr. Robinson proposed in the Basic Service Fees (BSF)?

A. Mr. Robinson has proposed significant increases in the BSF, while at the same time proposing to reduce the DNG revenue collected from the volumetric charges. The current and proposed BSF charges are shown in Exhibit___(CEJ-4). Note that the meter categories do not coincide with the BSF categories.

It is revealing to examine the Residential revenue produced by this change in fixed charges. The revenue for the Residential class under each of the meter types is shown in Exhibit___(CEJ-5) for the BSF in the Revised Ordered model. Note the substantial increase in revenue from the increases in the BSFs, from about $47.7 Million to $69.3 Million. The $21.5 million increase in the BSF should be contrasted with the $4.1 million decrease in the volumetric charges for the Residential class. The Company's proposal has the unusual feature that the increase in these fixed charges is so high that it is necessary to reduce the amount of revenue collected from the energy charges by over four million dollars.

Q. What justification does Mr. Robinson give for increasing the BSF?

A. The only justification Mr. Robinson gives for increasing the BSF is "… to calculate rates that follow the cost curves as closely as possible …" Note that he does not say that costs are the justification, nor is any other reason given. The "cost curves" do not represent the cost of providing service for customers and most certainly are no proper justification for setting rates. I will discuss this issue later in my testimony.

Q. Is a Residential rate design of this sort appropriate at this time?

A. No. There are two primary reasons that increasing the BSF is inappropriate. In looking at those reasons, it should be recognized that this is a pricing issue and not a costing issue. The embedded cost of providing access to service is not at issue in this discussion. That cost is used in allocating class revenues, but should not be used for setting rates. Questar is in the business of providing natural gas to its customers. Access to that service is of no interest to customers without the gas itself. Retail stores are not in the practice of charging customers to enter the store – the costs of the store that provides the customer the ability to buy at retail is included in the purchase price of the object being sold. Selling natural gas should be no different in that respect.

The first reason increasing the BSFs is inappropriate is that it is not necessary to provide the kind of revenue stability that many utilities seek through high fixed charges, because Questar has its revenue decoupled from sales through the Conservation Enabling Tariff. If Questar

sales decline due to reduced sales, the shortfall in revenue is made up. The fixed charge revenue should not be a consideration in setting rate structure. While no Questar witness has raised this as justification for the increase in BSF, it is a commonly-cited reason given by utilities.

In discussing fixed cost recovery, it should be noted that under the rates presented in the Revised Ordered model, Questar proposes to collect 36% of the Residential DNG revenue through the BSF and 22% of the GSC revenue. With the CET in place, there is no reason to collect such a huge portion of its revenue in fixed charges. In fact, there is justification for reducing it to zero.

Second, it is inappropriate to increase the fixed charges while reducing the volumetric charges at a time when rate design ought to be promoting conservation of energy resources. Basic economic theory tells us that in general, price and demand are inversely related; the greater the price, the less of a product that will be demanded and the lower the price, the more of that product that will be demanded. The response to change in price (known as "elasticity") is different for different items. For example, the elasticity for customer access (i.e., the elasticity of the BSF) is expected to be quite low. Few customers will choose to take service or not when the BSF is changed. Their only choice is to pay the BSF to take service or not pay it and not take service. It is not like the elasticity for gas, to which customers respond by consuming less when the price rises.

When the volumetric price of gas is reduced, customers will consume more gas and when the price is increased, customers will consume less gas. Questar's Residential rate design will encourage more consumption than if the rate design retained the current BSFs and increased the volumetric charges. In particular, Questar's Residential rate design will discourage customers from engaging in energy-efficiency actions. While that might be good for Questar's revenues, it is not desirable in this environment of conserving energy resources.

Q. Has Questar proposed to increase any Residential volumetric charges?

A. Yes, Questar proposes to increase the Residential winter gas charge by 0.8%. The Residential rates shown in the latest model provided by Questar have the summer volumetric charge decreased by over 16%. Total DNG revenue from volumetric charges will decrease by over $4.0 million.

Q. Please discuss Mr. Robinson's justification for increasing the BSF.

A. Mr. Robinson basically uses a fixed/variable approach to developing rates. This approach essentially proposes collecting the variable costs through the volumetric charges and the fixed costs through the fixed (BSF) charge. In presenting his results in QGC Exhibit 7.6, Mr. Robinson provides log-log graphs of the cost/Dth against the number of Dth used.

Q. Please describe Questar's Exhibit 7.6.

A. Mr. Robinson has presented what he refers to as "cost curves," but has not described them fully in his testimony. The rate design approach based on this accepts as given that all (or most) of the costs designated as fixed are to be recovered through a fixed customer charge. The curves associated with this approach are simply a graph of the variable cost plus the fixed cost divided by the amount of usage plotted against the amount of usage. For example, at the usage level of one Dth, the curve has the value of the cost of one Dth plus the fixed costs divided by one Dth, i.e., the cost of a Dth plus the full fixed cost; at 100 Dth, the value is the cost of a Dth plus the fixed costs divided by 100. The idea is that the charge for each Dth reflects the variable cost per Dth plus the fraction of the fixed cost for that Dth that will equal the total cost per Dth for each level of usage.

Q. Do these curves represent the cost of providing service to Residential customers at various usage levels?

A. No. This is not the cost of providing service to Residential customers using a particular level of commodity. It is simply the allocation of the fixed costs to the various sizes of customers on the basis of levels of usage. It is also an after-the-fact calculation that is easy to perform. If the PSC allowed a different level of costs, or if the allocation factors were assigned differently, the result would still be the result of a similar calculation, but would not represent the cost of serving a customer at that level.

One of the problems with this approach is that it is a static, after-the-fact analysis. It does not

provide any dynamic information about the cost of the customer changing its level of consumption. In a conservation-oriented environment, emphasis should be placed on the costs imposed on the utility by changes in a customer's consumption level, not on a static calculation such as Mr. Robinson's. Because the Company supplies some gas from its own sources, the average cost of gas is much lower than any additional gas that must be obtained from market sources. Thus, any customer that increases usage will impose more costs on Questar than the average represented in Mr. Robinson's "cost curves."

Q. Aren't the costs of that additional gas included in the commodity costs through the adjustment of gas costs?

A. The costs of additional gas and the change in costs are adjusted periodically, but the cost to the customer of that additional usage does not always reflect the higher cost of obtaining that gas. Moreover, GS-1 customers using 45 Dth per month or more would pay less for their additional usage, because usage in excess of 45 Dth is priced lower under the declining block rate in the current rate structure. Declining blocks are retained in the GSC rate, so even under Questar's proposed rates, those GSC customers at usage levels at or above 45 Dth per month will continue to pay less for increased usage than the cost of that usage.

Q. Should the Commission rely on Mr. Robinson's "cost curves" to set rates?

A. No. The curves presented by Mr. Robinson are not reflective of the costs of providing service and should not be relied on to develop rates for Questar's Residential customers. Under the

tariff, the commodity charge is the same in summer and winter, so the only distinction between summer and winter rates is the difference in fixed charges in the two seasons. Lowering the summer charge, as Questar proposes, is one way of distinguishing them, but that is not what we should be doing at this time.

Using these curves limits one's ability to design rates that address the many problems facing the country today. Rates based on these kinds of calculations were used 40-50 years ago to justify the use of declining-block rate structures. They are totally inappropriate today.

Proposed Residential Rates

Q. Have you prepared a Residential rate proposed for adoption?

A. Yes. I have already stated that the increase to current GS-1 customers should be the same for those categorized by Questar as GSR and those categorized as GSC. This can be done by increasing both winter block energy charges by the same percentage. I have developed a demonstration rate that provides the same revenue that Questar's GSR and GSC do for the GS-1 rate.

First, I propose that the current charges for BSF be retained. Second, rather than reduce the summer volumetric charge, I recommend that it be retained at its current level. In order to produce the revenue target, the winter volumetric charge must be increased by 18.2% to $2.31667 per Dth for the first 45 Dth and the tail block increased to $0.96181 The full GS-1

rate appears in Exhibit___(CEJ-6).

Q. Why have you retained the declining block structure in spite of having earlier expressed opposition to declining blocks?

A. There are several interrelated reasons for retaining the declining block rate for Schedule GS-1. The GS-1 class includes most of Questar's customers, ranging from residential customers using small quantities of gas to fairly large commercial users. The cost impact of removing the tail block and preparing a flat rate would be immense on large commercial customers. Once the class has been separated, rates can properly be designed to eliminate the declining block from the rate structure.

For example, if the largest gas users are in a class by themselves, a flat rate can be set that would be higher than the current tail block rate, but lower than the price of the initial block. With these large customers in their own class, changing to a flat rate would not have a large cost impact on any one customer, but the incentive to reduce consumption would be greater than with the lower declining block rate.

Security Deposits

Q. Has Questar previously made changes in its collections processes?

A. Yes. Prior to June 2004, the security deposit for Questar was the total of the two highest months' bills, but the amount was not to exceed $120. In 2004, Questar implemented a new

billing system which was unable to use the security deposit provision contained in its tariff, so Questar proposed changing the security deposit to two times the highest month's bill at the residence. Salt Lake Community Action Program and Crossroads Urban Center entered into a stipulation with Questar and other parties to set the security deposit at the single highest month's bill, but there was no limit on the amount.

Subsequent to that change in tariff, Questar made a number of changes to the Company's procedures with regard to what it characterizes as its efforts "to manage its residential uncollectible accounts." It is not clear that these changes have had any appreciable impact of uncollectibles. In fact, as I will explain later, the changes may have been counterproductive and resulted in higher costs to Questar's other customers.

In November 2005, Questar reduced the amount of delinquency that "triggers a collection process" from $75 to $25. This amount is far less than an average monthly bill, which has exceeded $60 per month during the past 3 years. The peak monthly bill has exceeded $130 during that same time, so reducing the amount affects only a relatively small number of customers. Less than 7% of Residential customers have peak month's bills smaller than $50. As is evident, the amount of delinquency that starts the collection process is less than a monthly bill for most customers. In addition to reducing the amount that triggers a collection, in August 2006 Questar accelerated the initiation of the collections process from 90 days to 60 days after the $25 "trigger amount" is delinquent.

Q. Have these actions reduced Questar's uncollectible accounts?

A. Mr. Bakker seems to believe so and testified that "These efforts by the Company reduce the amount of uncollectible accounts that are included in rates." However, there is no evidence that Questar's uncollectibles have been reduced by these actions. In calculating the "bad debt expense," Mr. Mendenhall used the average of the last three years bad debt expense as he states as "ordered by the Commission in Docket No. 95-057-02" and used in two subsequent dockets. No mention was made of any adjustment to bad debt expense for the actions described by Mr. Bakker which had been previously taken by the Company with the intent of reducing its uncollectibles.

Q. Are the reductions to bad debt from the actions described by Mr. Bakker implicitly incorporated in the method used by Mr. Mendenhall to calculate the bad debt ratio?

A. If any reduction in uncollectibles had occurred since the Questar actions, that reduction would show up in the data, but the data do not show that. The "bad debt expense ratio" calculated by Mr. Mendenhall has declined during the past three years, but I will show that is due to other factors and not to the actions taken by Questar.

First, only three data points are used by Questar; the revenues and charge-offs for three years. When more data is used, the result does not show any reduction from past years to the most recent year. The first two years of the last three themselves are the aberration. Uncollectibles

were substantially higher in those two years than in previous years. Second, the charge-offs are an accounting artifice over which Questar has some control. From 2003 to the current time, monthly net charge-offs have ranged from a negative $162,638 to $2,507,534. Negative charge-offs arise when collections exceed gross write-offs and gross write-offs are exceedingly variable.

Additionally, the write-offs occur six months after the service billed, so the high winter bills that are not paid are written off six months later, in the summer. This can lead to some interesting results. For example, that negative $162,638 write-off occurred the same month (January 2006) that Questar recorded its highest monthly billings since 2003 because the write-offs were associated with billings from the previous summer. This variability in monthly write-offs leads to somewhat variable annual write-offs. Through June 2004 for example, average monthly write-offs were about $325,000, but in July 2004 Questar implemented a new customer information system and write-offs for that month alone exceeded $2.5 million.

The most recent write-offs are the same as 4 years ago prior to Questar's change in collections practice. The write-offs as of June for each of these years are $4.7 million for 2004, $7.0 million for 2005, $6.0 million for 2006 and $4.7 million for 2007. I don't have the data for June of 2008, but looking at partial data suggests it will be about the same as last year.

Q. Why were write-offs higher for the years ending in June 2005 and June 2006?

A. Most, if not all of the change was related to outside factors – the $2.5 million write-off in July 2004 when Questar implemented a new customer information system, which increased the write-offs for the year ending June 2005 and an increase of 30% in billings that lead to increased write-offs for the year ending June 2006, followed by a decrease back to 2005 levels in 2007. The one-time large write-off and higher billings have a bigger impact on arrearages and write-offs than the actions of Questar to "manage its uncollectibles."

In fact, arrearages and write-offs are more closely related to the amount of the bills than anything else. The correlation between the 30-day arrearage and the billings (with a 30-day lag) is very high (0.92) and the correlation between 60 and 90-day arrearages, while lower, is still significant, as is the correlation between write-offs and billings (with a 6-month lag). A graph of monthly billings and the 30-day arrearages in Exhibit___(CEJ-7) show how closely these are related, with changes in 30-day arrearages lagging the change in billings by a month. Graphs of the 60-day and 90-day arrearages and write-offs would show similar tracking with the billings, but they are not as closely related. I think it is safe to predict that 6 months from now, 30-day arrearages will start to increase and by summer of 2009, write-offs will be near new highs because of the expected high levels of billings with this rate case and the increasing cost of gas. These changes will increase the costs by nearly 50%.

Q. What does this all mean about the impact of the security deposit changes previously taken and those proposed by Questar?

A. It should not be surprising that arrearages are closely tied to billing levels. It may be surprising that there is no evidence that the changes in Questar's collections process have had any effect on write-offs. And in addition, there is no evidence that Questar's proposed security deposit changes will have any effect on future uncollectibles or write-offs. But they will certainly have a detrimental effect on low-income customers.

Q. What changes has Questar proposed for the security deposit for customers with no credit history or less than 12 months satisfactory credit history with the Company?

A. Questar proposes to charge these customers a security deposit equal to the highest monthly charge during the last 12-month period at the premises.

Q. What changes does Questar propose in its Residential security deposits in this proceeding for customers with poor credit history with the Company?

A. Questar proposes to double the security deposits from the current amount of the highest month's bill during the past 12 months to twice the highest month's bill for customers with a poor credit history with Questar.

Q. Please describe what these terms mean.

A. In Questar's proposed tariffs, less than 12 months' satisfactory payment history means not having made timely payments to Questar during that period. Poor credit with Questar means having had service terminated, being delinquent, or having been delinquent. Logic dictates

that customers with these kinds of payment problems are overwhelmingly likely to be low-income households.

Q. Will these changes in the Residential security deposit procedures have a large impact on the Company's uncollectibles?

A. No. According to QGC Exhibit 6.3U, these proposed changes will reduce the bad debt by 0.08%, an amount for the Utah jurisdiction of less than $180,000.

Q. How will this affect low-income customers?

A. Coupled with the rising prices of food, gasoline and everything that is transported, increases in gas prices will create a greater hardship on low-income customers than on others. The additional costs of the security deposits may be the last thing that pushes some of them into disastrous consequences. I will show that when these customers leave the system, there are negative cost consequences to Questar and its other customers.

The changes in the security deposit procedure seem primarily directed toward low-income customers, as is the current security deposit policy. Other than the requirement that allows the Company to charge new Questar customers a security deposit, the changes clearly affect low-income customers more than customers with higher levels of income.

Q. On what basis do you assert that Questar's current and proposed security deposit

policies are directed toward low-income customers?

A. Under the current security deposit policy, a low-income customer is many times more likely to be required to pay a security deposit than a customer with higher income. That shouldn't be surprising to anyone. It should be expected that customers who have had bill payment difficulties are those with less income.

Q. How do you know low-income customers are more likely to pay a security deposit than other customers?

A. In response to AARP Data Requests numbered 2.03 and 2.04, Questar has provided the number of customers who have and who have not been required to provide a security deposit, broken down by whether they receive HEAT assistance or not. The HEAT (Home Energy Assistance Target) program is a federally-funded energy assistance program administered by the state through the Department of Community and Culture to assist income-eligible households. A security deposit is nearly 4 times more likely to be required from those receiving HEAT assistance than from those not receiving assistance. But this only tells part of the story. Not all low-income customers receive HEAT assistance, so many of those not receiving HEAT assistance who paid deposits are also likely to be low-income households.

Q. Please describe who can receive HEAT assistance.

A. Customers can only receive HEAT assistance if their household income is below 125% of the Federal poverty level. The Federal poverty level is currently at $10,400 for a single person

($867 monthly) plus $3,600 for each additional member of the family ($300 monthly). Note that the Federal poverty level for a single person is near the full-time earnings of a minimum wage employee. It should also be noted that the average single retired worker or survivor living solely on Social Security benefits would be below 125% of the poverty level. A retired couple who both received Social Security benefits would have income equal to only 150% of the poverty level. In this latter case, I would still consider this retired couple as low-income, but they would be ineligible for HEAT assistance. If such a retired couple moved into Questar's service territory, they might be required to pay a security deposit out of their monthly Social Security benefit total of $1,761, the average amount received according to the Social Security Administration. Exhibit___(CEJ-8) contains these numbers for comparison.

According to the U.S. Department of Health and Human Services, there were approximately 82,000 families in Utah who are below 125% of the poverty level in 2005, the latest date for which the Federal government has published data. The recent decline in the economy has likely increased this number. Not all of these are in the Questar service territory, but Questar serves approximately 90% of the households in Utah, so we can conclude that roughly 74,000 low-income families could be served by Questar. Of these, about 21,000 Questar customers receive HEAT assistance according to Questar records, so there are substantially more low-income customers served by Questar who do not receive assistance. The Utah Department of Community and Culture administers the HEAT program and they report that nearly 60% of the customers receiving HEAT assistance were below 75% of the poverty level. For a single

person, that is $7,800 ($650 monthly) and for a couple, only $875 monthly ($10,500 annually).

We do not have a perfect breakdown of Questar customers by income level. We do know that those receiving HEAT assistance are all low-income, but many of Questar's customers who don't receive HEAT assistance are low-income as well. It is probable that many, if not most, of Questar's customers who currently pay security deposits are low-income families. It is low-income customers such as these who will be most affected by the increase in security deposits. Few customers with high levels of income will be affected.

Q. What will the likely cost impact of the proposed security deposit be on low-income customers?

A. The peak monthly bill for Questar customers has ranged between about $130 and $180 during the past several years. The increase in gas costs plus the increase requested in this case will increase the size of those bills by nearly 50% for this year's heating season. For the security deposit now in place, the average deposit is around $140. The Questar proposal would increase the number of customers obligated to provide a security deposit and the amount would increase. For some customers, the security deposit under Questar's proposal would be double the current amount and a year from now after the increase in gas costs and rates, the security deposit could be three times as large.

The security deposit would be substantially larger for some customers. Over 10% of the Residential customers have a peak month's bill exceeding $200 and over 3% have a peak month's bill exceeding $250. Security deposits demanded of customers moving into a dwelling with a bill this size in the past year could be $400 to $500. This would be over half of the monthly income of an individual living at the poverty level. A year from now with the increase in rates, the deposit for some customers could be as large as $750. For low-income customers, this almost precludes the possibility of obtaining utility service.

The impact of these additional costs being imposed on low-income customers simply adds to their cost burden. Their energy burden is already greater than the energy burden for households with higher income levels. The added cost of the Questar security deposit will cause some low-income customers to take actions inimical to their interest; some will skip paying other bills; some will do without utility service for part of the year; some will use unsafe heating, cooking and/or lighting methods; all will be worse off. In addition, there are cost impacts on other customers and other citizens in the community.

Q. What cost impacts are incurred by other citizens in the community and other Questar customers as a consequence of some low-income Questar customers not taking gas service?

A. There are several potential consequences, depending on the action taken by the low-income customer. If the customer decides to pay the Questar deposit and not pay his electric bill, and

electric service is disconnected, the customer may use candles, lanterns, or other unsafe flame-based lighting method. The danger of fire is increased for this household and the impact of fire affects the owner of the house and neighboring dwellings, the costs and personnel of the fire department, and ultimately, the taxes paid by other citizens in the community.

If the customer decides to not pay the Questar deposit and heat his residence with kerosene heaters, wood stoves, or use some other less-safe heating method, there is again the danger of fire and its attendant costs. There are additional cost impacts on other Questar customers from the loss of any Questar customer.

For each low-income customer who cannot pay the additional security deposit and occupies a residence without taking gas service, there is an annual loss of at least $215 in fixed cost recovery that must be made up by other customers. This comprises the BSF and the DNG components of an average bill. Questar forgoes the revenue from any customer who leaves the system, so it forgoes these revenues as a contribution to its fixed cost and the loss must be made up by other Questar customers.

Considering that nearly 20,000 gas customers had their service disconnected during the last year for payment problems, it would not strain credulity that hundreds of these customers would be unable to obtain the required funds to be reconnected.

Q. Is it your position that Questar and its other customers would be better off not collecting any revenue from low-income customers who cannot pay their gas bill?

A. No. It is my position that Questar and its other customers would be better off retaining those customers who can pay some of the costs of their service, so long as their payment exceeds the cost of gas. This means that imposing excessive charges on these customers and driving them from the Questar system is detrimental to everyone – to the low-income customer driven from the system, to the Company, and to other customers.

The cost to other customers of Questar resembles the famous U-shaped Laffer curve, where at each extreme, the cost is high, but the best outcome is at some median level. At one extreme, providing service and obtaining no revenue from these customers is clearly an outcome that does not benefit Questar and its other customers. Similarly, imposing conditions and charges so high that these customers leave the system makes everybody worse off. Somewhere in between everybody is better off. The low-income customer obtains gas service and pays a price that compensates the utility for the gas and contributes toward the fixed DNG costs; the company is compensated; and other customers benefit from having the low-income customer contribute toward the fixed costs.

It is this same argument that has been accepted for providing a lower rate for customers who might bypass the system – the Company and other customers are better off providing a

discount to potential bypass customers because they will make a contribution to fixed costs that benefits other customers. In this case, we are only asking that costs of obtaining service not be raised even higher for low-income customers.

Q. Is there any evidence that reducing arrearages through programs for low-income customers has benefits for other customers of utilities?

A. Yes. Quantec, LLC performed a "Low-Income Arrearage Study" for PacifiCorp in 2007. This study showed that low-income customers more than paid for their variable costs and made a contribution to PacifiCorp's fixed costs. This is true even though low-income customers as a group did not cover all of their billings. For PacifiCorp however, low-income customers exceed coverage of their energy costs by 12%. This excess 12% provided a contribution to PacifiCorp's fixed costs. It is clear that other customers are better off by the Company taking steps to keep low-income customers on the system.

Q. What steps has PacifiCorp taken to keep low-income customers on its system?

A, PacifiCorp has taken various steps in its different jurisdictions. In Utah, PacifiCorp facilitated implementation of a rate discount for those low-income customers who are eligible for HEAT. This discount is up to $8.00 a month.

Q. What do you recommend for Questar?

A. I recommend that the Commission require Questar to meet with interested parties to develop a

proposal, such as a rate discount to help low-income customers stay on Questar's system. This will both help the low-income customers maintain essential service and continue to contribute to Questar's fixed costs. The exact details of the proposal should be recommended by the parties to the Commission in the next general rate case.

Q. Have you any other comments about the proposed changes in the security deposit rule?

A. Yes. The fact that many of the low-income customers pay more for their utility service than other customers should not go by without additional comment. Their low levels of income mean that they have less money to spend on all goods and services and have greater difficulty with meeting their obligations to pay Questar, but Questar should not structure its tariffs and procedures to impose additional costs on these customers. I have already noted that low-income customers are more likely to pay security deposits. It is also the case that these customers are more likely to face shut-offs and the attendant costs of reconnection, interest on past-due accounts (amounting to over $3 million per year), collection fees and all the rest of the costs associated with payment difficulties. The end result is that while low-income customers use less gas than other customers, they pay much more due to the structure of these additional charges. The Commission should not exacerbate this problem for low-income customers by allowing Questar to increase these deposits.

Q. Do you recommend that the PSC adopt the proposed Questar security deposit rules?

A. No. I recommend that the PSC reject Questar's proposed security deposit rules.

After-Hours Reconnection Fee

Q. What is the current after-hours reconnection fee?

A. The current connection fee applies to all connection services and is $30.00. Questar proposes to initiate an after-hours reconnection fee of $100.00.

Q. Does Questar expect to apply the after-hours reconnection fee often?

A. No. Mr. Bakker has testified that Questar expects 15 to 20 instances. A similar charge for its service in Wyoming has resulted in one after-hours request during the past four years. If the after-hours reconnection fee is imposed 20 times during the year, that amounts to just $2,000 additional revenue for Questar.

Q. Do you support imposition of the after-hours reconnection charge?

A. No. This is a fee that serves no useful purpose. I am astounded that it has even been proposed. The amount of costs that this fee will recover is simply too small.

My major concern is that it could be a health and safety issue. The circumstance that I envision is when a household's gas is disconnected during the winter for safety reasons, for example if there is a leak behind the meter and the repair is not Questar's responsibility. It seems that once the repair is made by the resident, the reconnection ought to be made without charging the resident an additional fee if there is a health or safety issue, as in providing heat

during the winter. I can perfectly imagine an elderly widow not being able to pay the additional charge and freezing to death.

In fact, this kind of situation occurred to me years ago and the utility had no provision for after-hours reconnection at all. I came home on a Friday evening to find a gas company notice on my doorknob that my gas had been disconnected because the mailman has smelled a gas leak and reported it. The utility had confirmed that there was a leak downstream from the meter, which was the resident's responsibility. Even though I was able to have the leak repaired by a contractor on Saturday, the utility would not reconnect my service during the weekend and I remained without heat from Friday until Monday during the business day. With the family sleeping on the floor near a wood-burning fireplace, we were not in danger of freezing to death, but not everyone may be that lucky.

Q. How do you recommend the after-hours reconnection fee policy be modified?

A. I'm not certain a modification is warranted. My first recommendation is for the Commission to reject this proposed fee. If a modification is made, I would recommend that the fee be waived if health and safety are at issue. The problem with this kind of modification is that the reconnection must be made in a timely fashion if it occurs during cold weather and there would be no recourse for the customer if Questar denied reconnection without the fee being paid. This may not seem to be an insurmountable problem for many people, but for low-income customers, paying an additional $100 fee can be problematic. While modifying the

policy to waive the fee in instances when health or safety are an issue would improve the policy, such a modification still presents problems, and I believe that it would be preferable for the proposal to be rejected by the Commission.

Q. Does this conclude your prepared direct testimony?

A. Yes.