

**Witness CCS – 1D Cost of Service/Rate Design EO**

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In the Matter of the Application of</b>	)	<b>Docket No. 07-057-13</b>
<b>Questar Gas Company to Increase</b>	)	<b>Pre-filed Direct</b>
<b>Distribution Non-Gas Rates and</b>	)	<b>Test Year Testimony of</b>
<b>Charges and Make Tariff Modifications</b>	)	<b>Eric Orton</b>
		<b>For the Committee of</b>
		<b>Consumer Services</b>

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August 18, 2008

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**INTRODUCTION**

**Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

A. My name is Eric Orton. I am a utility analyst on the staff of the Committee of Consumer Services (Committee). My business address is 160 East 300 South Salt Lake City, Utah.

**Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?**

A. Yes. I presented testimony in the Test Year and Revenue Requirement portions of this docket.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. In representing the interests of residential and small commercial customers of Questar Gas, I will present the policy recommendations of the Committee. The Committee's expert witness, Dr. David Dismukes, will present separate testimony addressing the technical review of the cost of service and rate design issues as well as supporting several specific recommendations.

**Cost of Service Issues**

24

25 **Q. PLEASE INTRODUCE THE COMMITTEE'S EXPERT WITNESS**  
26 **THAT WILL PROVIDE TESTIMONY IN THIS PROCEEDING.**

27 A. The Committee's expert testimony witness in this case is Dr. David  
28 Dismukes, a Consulting Economist with Acadian Consulting and a  
29 recognized expert in Cost of Service and Rate Design matters.

30

31 **Q. HAS DR. DISMUKES WORKED ON BEHALF OF THE**  
32 **COMMITTEE IN PREVIOUS CASES?**

33 A. Yes. Dr. Dismukes helped us in evaluating the Company's  
34 proposed CET.

35

36 **Q. WHAT ARE DR. DISMUKES' RECOMMENDATIONS**  
37 **REGARDING THE COST OF SERVICE ISSUES IN THIS CASE?**

38 A. Dr. Dismukes supported the following recommendations on behalf  
39 of the Committee:

- 40
- 41 • The Commission should order the Company to provide a cost of  
42 service study in its next general rate case that includes all  
customers and all customer classes as separate rate classes.
  - 43 • The Commission should require the Company to file its Class  
44 Cost of Service Study (CCOSS) using its current rate classes in  
45 future rate cases.

46                   • The Commission should adopt the six alternative allocation  
47                   factors identified in Dr. Dismukes testimony.

48

49           **Q.     DOES THE COMMITTEE HAVE ADDITIONAL COST OF**  
50           **SERVICE RECOMMENDATIONS IN THIS CASE?**

51           A.     In my testimony, I will provide additional policy reasons for  
52           supporting some of Dr. Dismukes' recommendation. In addition, I  
53           will provide testimony to support the recommendation that the  
54           Commission order that the Company use an alternate methodology  
55           in its Distribution Plant Factor Study.

56

57           Cost of Service Study – Distribution Plant Factor Study

58           **Q.     DO YOU HAVE ANY ADDITIONAL CONCERNS ABOUT THE**  
59           **COST OF SERVICE STUDY BEYOND THOSE RAISED BY DR.**  
60           **DISMUKES?**

61           A.     Yes. The Committee is concerned about the methodology used in  
62           Questar's distribution plant factor study.

63

64           **Q.     HAVE THESE CONCERNS BEEN RAISED PREVIOUSLY?**

65           A.     Yes. These concerns were raised by the Committee in a cost of  
66           service and rate design task force established after the last rate  
67           case. I represented the Committee in that proceeding. Basically, it  
68           was discovered that the method the Company used to determine

69 these costs had significant problems that could only be corrected  
70 with a full and complete revamping of the data collecting method.  
71 The results of the Company's method were not representative of  
72 the actual plant. Among the Committee's concerns were:

- 73 • Some pipes included in the Company's method did not actually  
74 exist;
- 75 • The cost for each plant item was recorded at the time it was  
76 installed (from the 1930's to the present), which didn't give a  
77 reference point to determine the real costs relative to  
78 replacement costs; and
- 79 • The Company's use of this 'survey' method could not be relied  
80 on to give accurate facility description, numbers or costs.

81

82 **Q. WHAT WAS THE COMMITTEE'S RECOMMENDATION IN THAT**  
83 **TASK FORCE?**

84 A. The Company had been performing a random sampling of  
85 approximately six hundred of its total customers to determine the  
86 amount of distribution plant in the Distribution Plant Factor Study  
87 that should be assigned to each rate class. Since the Committee  
88 noted that the Company had less than eleven hundred non-GS  
89 customers, we recommended that the Company determine the  
90 actual costs of those customers (non-GS) and, attribute the  
91 remainder of the distribution plant costs to the GS class. Our

92 recommendation seemed to be a more straightforward  
93 methodology to determine which distribution plant costs should be  
94 assigned to each class.

95

96 **Q. WAS THE COMMITTEE'S RECOMMENDATION ADOPTED BY**  
97 **THE COMPANY?**

98 A. It was previously the Committee's understanding that our  
99 recommendation had been adopted. Through follow up with the  
100 Company, I had understood that the new survey was being  
101 performed in two parts: an actual cost study for the entire  
102 population of the non-GS classes and a random survey of  
103 customers from the GS class.

104

105 **Q. IS THIS THE METHODOLOGY THAT THE COMPANY FILED IN**  
106 **THIS RATE CASE?**

107 A. No. According to the Company exhibit 8.2, page 2 of 7, the  
108 Company took a sampling of 1159 of 747,087 GS customers and  
109 514 of 1036 Non-GS customers, as well as the actual costs for the  
110 entire body of non-GS customers who would use over 16,000 cubic  
111 feet of natural gas per hour (the largest 183 of the 1036 non-GS  
112 customers). The Company surveyed more customers than we had  
113 envisioned, but without accomplishing what we had anticipated.  
114 According to Mr. Bateson's testimony, they 'adopted one aspect of

115 the Committee's approach', but not our entire recommendation (see  
116 line 56). Mr Bateson explains the Company's reasoning for doing  
117 these surveys and actual cost method in his testimony and  
118 advocates for using the sampling approach stating that the  
119 Committee's recommended approach could allow bias (line 54) and  
120 that it would be more critical to accurately measuring the facilities  
121 (lines 61-63) than using the Company's sampling approach. He  
122 suggests that the Committee's recommended approach is a  
123 subtractive methodology and could exacerbate any bias (see line  
124 54) but suggests that the issue of measurement error is reduced by  
125 using a stratified sample (see lines 61 -63).

126

127 **Q. DO YOU AGREE THAT SAMPLING GIVES THE MOST**  
128 **ACCURATE REPRESENTATION OF THE COSTS TO SERVE**  
129 **THESE CLASSES?**

130 A. Not in this case. A sample should be used when actual figures are  
131 not available. In this case the actual figures were and are available  
132 and the Company could have used the actual figures, consistent  
133 with our recommendation in the task force.

134

135 **Q. WHAT DOES THE COMMITTEE RECOMMEND?**

136 A. We recommend that the Commission require the Company to use  
137 actual costs for all of the non-GS customers and a survey of the GS

138 customers to get accurate Distribution Plant figures. This will result  
139 in a more accurate representation of the costs. Collecting data by  
140 using a sample, so that there is more room for measurement error,  
141 is not an acceptable reason to choose sampling. The study should  
142 use the most accurate methodology available. Actual costs provide  
143 more reliable data than imputing costs based on a sampling.

144

145 **Q. WAS THERE ANOTHER CONCERN ADDRESSED IN THE TASK**  
146 **FORCE?**

147 Yes. Another Committee concern that the task force addressed  
148 was that the dollar amounts in the sampling were reporting in  
149 nominal terms as of the date the line was installed, so the value of  
150 the dollars varied greatly. This resulted in installation and material  
151 costs that showed a disproportionate cost being borne by newer  
152 customers when compared to ones that have been on the system  
153 for many years.

154

155 **Q. DID THE COMPANY UPDATE THE PART OF THE STUDY THAT**  
156 **DEALT WITH THE TIME VALUE OF MONEY WHERE THE**  
157 **INSTALLATION OF PIPES IS CONCERNED?**

158 A. Yes. According to Mr. Bateson's testimony they did. That is  
159 beneficial because it facilitates appropriate comparison when the



160 denominators (meaning today's dollars or average dollars) are the  
161 same (see lines 78-80).

162

163 **Q. DO YOU HAVE ANY ADDITIONAL POLICY**

164 **RECOMMENDATIONS RELATING TO THE CCOSS?**

165 A. Yes. Dr. Dismukes has provided testimony demonstrating that the  
166 CCOSS used by Questar in this case is significantly flawed and  
167 cannot be relied upon for rate setting purposes. From a policy  
168 perspective, the Committee believes it is important for the  
169 Commission to order that these flaws be remedied and that a  
170 CCOSS examining all existing classes (as well as any new  
171 proposed classes) be completed prior to the Company's next rate  
172 case.

173

174 **Rate Design Issues**

175

176 **Q. WHAT ARE DR. DISMUKES' RECOMMENDATIONS**

177 **REGARDING RATE DESIGN?**

178 A. The Committee's expert witness, Dr. Dismukes, made the following  
179 rate design recommendations:

180 • The Commission should reject the Company's proposals to  
181 increase the BSF.

- 182 • The Company's proposal to split the GS-1 class into GS-R and GS-  
183 C components should be modified to one that splits the class into a  
184 GS and GS-L rate schedule.
- 185 • All customers with maximum monthly usage of 100 Dth or less  
186 would take service under the new GS rate schedule.
- 187 • All former GS-1 customers with maximum monthly usage above  
188 100 Dth would take service under the new GS-L rate schedule.
- 189 • Uniform rates (on dollar per Dth basis) for the GS and GS-L classes  
190 should be adopted.
- 191 • The seasonal differential for the GS class should not be increased
- 192 • The natural gas vehicle equipment lease program should be  
193 eliminated.
- 194 • NGV lease program should be eliminated and the rate should no  
195 longer be subsidized.
- 196 • Line extension allowances should be reduced by one-third.

197

198 **Q. DO YOU HAVE ADDITIONAL POLICY ISSUES RELATING TO**  
199 **THESE ISSUES?**

200 A. Yes. I have policy concerns about the Company's proposal to  
201 increase the Basic Service Fee (BSF) and the Company's use of a  
202 declining rate block structure in its newly proposed GSC class. In  
203 both cases, the Committee is concerned that these proposals are

204 counter to the goals of promoting additional conservation. I will  
205 also address the NGV rate in more detail.

206

207 **Q. WHAT ARE THE COMMITTEE'S POLICY CONCERNS**  
208 **REGARDING THE COMPANY'S PROPOSAL FOR THE BASIC**  
209 **SERVICE FEE?**

210 A. The Committee is opposed to increasing the Basic Service Fee in  
211 this case. The idea of collecting more of the DNG costs on a flat  
212 fee is counterintuitive to allowing price signals that can be seen and  
213 responded to by the customers. A higher BSF is also contrary to  
214 promoting conservation. To promote these public policy concepts,  
215 more costs should be collected through volumetric based charges  
216 and less on a fixed fee.

217

218 **Q. WHAT ARE THE COMMITTEE'S POLICY CONCERNS WITH THE**  
219 **PROPOSAL FOR THE PROPOSED GSC CUSTOMERS TO**  
220 **HAVE A DECLINING BLOCK RATE?**

221 Declining block rates are synonymous with quantity discounts.  
222 Quantity discounts are typically used to promote additional  
223 consumption. Such a rate design is obviously in conflict with the  
224 public policy of promoting conservation. It would be in direct  
225 opposition to all the DSM measures that the Commission, the  
226 Company and other interested parties have been promoting in

227 supporting Questar's new and successful DSM programs. Now is  
228 the time for the Commission to clarify its priorities and provide  
229 additional guidance that declining block rates are not appropriate.

230

231

232 Natural Gas Vehicles

233 **Q. DO YOU HAVE ADDITIONAL RATE DESIGN POLICY ISSUES**  
234 **TO ADDRESS?**

235 A. Yes. I will also address some policy related to the Natural Gas  
236 Vehicle (NGV) rate.

237

238 **Q. DOES THE COMMITTEE SUPPORT THE COMPANY'S**  
239 **PROPOSED NGV RATE?**

240 A. No. As addressed in Dr. Dismukes' testimony, the Committee does  
241 not support the revenue credit methodology used with the NGV rate  
242 nor does it support the current rate itself, which is significantly lower  
243 than the estimated cost to serve this class of customers.

244

245 **Q. WHAT IS THE COMMITTEE'S PROPOSAL FOR NGV RATES?**

246 A. The Committee recommends that, since the cost to serve the NGV  
247 tariffed customers is estimated at more than two times what it  
248 currently is set at (\$.73 vs \$1.75) that the rates be moved to about  
249 half way to this estimate. The new rate per gallon equivalent

250 should be increased by \$0.50 until the true cost to serve that class  
251 is determined. The Committee further recommends that the NGV  
252 rate should be set at actual cost to serve in the next rate case. As  
253 stated in Dr. Dismukes' testimony, the Committee is recommending  
254 that the next case include a cost of service study that includes all  
255 classes. At that time, we would be able to review the costs and  
256 support an actual cost of service, as opposed to the current  
257 estimate.

258

259 **Q. ARE THERE ADDITIONAL POLICY CONCERNS TO CONSIDER**  
260 **SPECIFIC TO THE NGV RATE?**

261 A. The original order from the Commission approving the NGV rates  
262 touted some of the societal benefits of natural gas as a vehicle fuel  
263 source. The Committee supports those findings. However, this  
264 issue has evolved significantly in recent times. Whereas the  
265 original order suggested that the NGV industry wouldn't develop  
266 without the assistance of the regulated natural gas utility, the  
267 Committee believes that the NGV industry now cannot further  
268 develop unless the rates reflect a full cost of service. The currently  
269 subsidized rate will ensure that Questar will continue as a near-  
270 monopoly provider of natural gas filling stations, as no other  
271 provider could compete against such artificially low prices. In order

272 for the industry to grow any further, actual costs to serve these  
273 customers must be reflected through the rates.

274

275 **Q. ARE YOU CONCERNED THAT THE NGV RATE INCREASE**  
276 **WILL HAVE A CHILLING EFFECT ON THE INDUSTRY?**

277 A. I believe that any chilling effect could be counteracted with  
278 appropriate information. The Commission should order the  
279 Company to work with interested parties to develop a fact sheet to  
280 be posted at each NGV filling station. This fact sheet could explain  
281 the partial removal of the subsidy and the intent to move the NGV  
282 rate to cost of service. Providing this additional explanation could  
283 alleviate consumer concerns that the NGV rate would continue to  
284 increase at such a high percentage rate by explaining that these  
285 increases are occurring in two steps in order to remove the subsidy  
286 from other natural gas ratepayers and that prices will then be  
287 specifically tied to actual costs.

288

289 **Q. ARE THERE OTHER ISSUES ASSOCIATED WITH THE NGV**  
290 **RATE THAT SHOULD BE ADDRESSED?**

291 A. Yes. The industry has changed significantly in the last eighteen  
292 years and the NGV issues should be closely examined. Since the  
293 use of NGV has doubled over the last year, the resolution of these

294 issues in a timely manner is essential. Some of the issues to be  
295 considered would include:

- 296 • Are the NGV rates set appropriately to accommodate all  
297 options for natural-gas filling stations (Company owned,  
298 independently owned, and individually owned compressors)?
- 299 • To what level should the NGV infrastructure be maintained  
300 and/or improved?
- 301 • What is the appropriate role for a regulated utility such as  
302 Questar in the NGV industry?

303

304 **V. Conclusion and Recommendations**

305

306 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND**  
307 **RECOMMENDATIONS.**

308 A. In addition to the recommendations addressed by Dr. Dismukes,  
309 and summarized in my testimony, I recommend the following:

- 310 • The Commission should order a new Distribution Plant Study  
311 that incorporates actual costs for the non-GS customers.
- 312 • The Commission should deny the proposed increase to the  
313 Basic Service Fee and the declining block rate structure  
314 proposed for the new GSC class since both are contrary to  
315 the public policy objectives of conservation.

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- The NGV rate should be increased by \$0.50 in this case and further increased to the full cost of service rate in the next rate case. The Commission should further order the Company to work with interested parties to develop a fact sheet regarding these changes to the NGV rate to ensure that NGV customers are fully informed regarding the rate changes.
  - The NGV rate should be further examined to ensure that the underlying principles are consistent with good public policy, given the substantial changes in this industry since the rates' inception.

327

328 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON COST**  
329 **OF SERVICE AND RATE DESIGN ISSUES?**

330 A. Yes.