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 DPU EXHIBIT 6.0R

PRE-FILED REBUTTAL TESTIMONY

OF

MARLIN BARROW

ON BEHALF OF THE

UTAH DIVISION OF PUBLIC UTILITIES

PHASE 2-COST OF SERVICE

September 22, 2008

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Exhibits

PURPOSE OF TESTIMONY

Q: Please state your name, business address, employer, and current position or title for the record.

A: My name is Marlin Barrow, and my business address is 160 E 300 S, Salt Lake City, 84114. My employer is the Division of Public Utilities in the Utah Department of Commerce. My current position is a Technical Consultant.

Q: Are you the same Marlin Barrow that submitted Direct Testimony for the Division in this Docket No. 07-057-13?

A: Yes.

Q: What is the purpose of your testimony?

A: My main purpose is to address concerns raised by Committee of Consumer Services (CCS) Witness Dr. David E. Dismukes and AARP, Salt Lake Community Action Program and Crossroads Urban Center (SLCAP/AARP) Witness Charles E. Johnson in their respective testimony regarding Questar Gas Company's (Questar Gas or Company) proposed split of the GS-1 class into two separate classes: a GSR class designed for residential uses and a GSC class designed for commercial customers.

PARTIES CONCERNS

Q: What were their concerns regarding the split of the GS-1 class into the GSR and GSC rate classes?

A: Both of these witnesses expressed concerns about the Company's proposed use of sales tax codes to split the GS-1 class. Their individual concerns are more fully explained below.

Q: What were the objections of the witnesses in question?

A: CCS Witness Dr. Dismukes feels a usage perspective makes more sense than a sales tax rate (code) perspective.[1] He advocated a GS rate class with a maximum monthly usage of 100 Dth or less and a GS-L class for those customers who usage exceeded the 100 Dth per month.[2] AARP Witness Charles Johnson felt there is not enough evidence presented to determine if a tax code is the best methodology to allocate customers to a new rate class and the decision should be deferred until more study can be completed.[3]

Q: Is either witness directly opposed to splitting the class into two separate classes?

A: No. Both witnesses support eventually dividing the GS-1 rate class.

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[1] Pre-filed Direct Testimony of David E. Dismukes, Ph.D, Docket No. 07-057-13, page 41, lines 878-880.

[2] Idid, lines 883-888.

[3] Direct Testimony of Charles E. Johnson, Docket No. 07-057-13, page 7, line 10-13.

TAX CODES

Q: What method did the Company advocate in splitting the GS-1 class into two separate classes?

A: The Company recommended splitting the GS-1 class based on tax codes which are assigned to customers at the time service is requested.

Q: Did the Division support the Company's recommendation to use tax codes to define the GSR and GSC customer classes?

A: Yes.

Q: Does the Division still support the Company's recommendation to use tax codes to define the GSR and GSC customer classes?

A: Yes.

Q: What are the tax codes that the Company used to divide the current GS-1 customers into the new GSR and GSC customer classes?

A: Within all rate classes, a specific sales tax code is pre-assigned to all classes of customers. This sales tax code designates a specific tax rate that is a combined sales tax rate for the locality where the gas service is provided. The sales tax rate for residential use is 2.65% lower than the combined sales tax rate for all localities. When customers initiate service, the Company Customer Service Representative asks the customer whether the service is primarily for residential or commercial use. Based on the response, the appropriate sales tax rate code is

assigned. Customers can change the tax code by calling and requesting the change.[4]

Q: Why does the Division support the use of sales tax codes to split the current GS-1 class of customers into the GSR and GSC customer classes?

A: The Division supports the use of sales tax codes to delineate the GSR class from the GSC class because it defines by a fixed parameter, a customer's rate class. If volumetric blocks or metrics are used as a means to assign customers into rate categories, the Division sees a problem because those volumes change over time and certain customers have usage that happens to be right at the breaking points between rate categories. Customers in these circumstances face the risk that changes in usage patterns may move them to a different rate class. Those customers who are at the volumetric margins of either class may also be faced with a perverse incentive to use more gas in order to move to a rate class which may reduce their overall costs due to rate differentials that exist between the classes.

Q: Is having customers move between volumetric blocks a bad thing?

A: No, it is not a bad thing and is something that happens as long as efficiency is the primary motivational factor. However, if there are not smooth transitions within

[4] Response to DPU Data Request 38.01-.03

rate categories and between rate classes, some unintended consequences may occur. Such is the case that currently exits with the current GS-1 rate schedule and the F-1 rate schedule. The current F-1 schedule requires a minimum load factor of 40% and a minimum annual usage of 2,100 Dth. The current rate differential between the F-1 and the GS-1 block rates is great enough that there exists the possibility of some commercial customers saving money by increasing usage in a needless manner in order to qualify as an F-1 sales customer. DPU Exhibit 6.1R shows an example, under the current rate schedules, of the potential savings available to a large GS-1 commercial customer, who may already meet the annual Dth usage requirement of the F-1 schedule but not the load factor requirement. As shown in the example, by imprudently increasing their usage to meet the 40% load factor requirement, a large GS-1 commercial customer can potentially save over $600 in annual natural gas expense at current gas cost rates.

Q: Does the Division believe this type of example actually occurs?

A: No. The Division has no evidence that this does occur. It merely points out some concerns the Division has by fixating on volumetric usage requirements to designate customer classes.

Another potential problem that exists with volumetric designations is the correct classification of new customers. That initial classification is based on an estimate of annual use. The ramifications of making incorrect initial volumetric

projections for a customer who is then assigned an incorrect rate class could be significant, resulting in either underpayment or overpayment relative to that customer's cost causation.

The Division feels it is best to split the GS-1 class into fixed residential and commercial rate classes to better distinguish the purpose for the use of natural gas. Sales tax codes can begin to accomplish this by assigning customers to a distinct rate class. Once you have defined a class of customers by primary purpose or use, either residential use or commercial use by a sales tax code, you can fine tune volumetric objectives through rate design within those set customer classes in following rate proceedings.

PRIMARY PURPOSE OF CUSTOMER CLASS

Q: You mentioned primary purpose as a means of dividing customers into customer classes. What do you mean by that "primary purpose"?

A: Primary purpose refers to the concept of designing rates within a class that best meet current energy objectives or policies. In today's environment, these objectives are the promotion of efficiency and conservation in natural gas usage. CCS Witness Dr. Dismukes alludes to this fact in his direct testimony.[5] The Company is currently engaged in an aggressive DSM campaign aimed at the

[5] Pre-filed Direct Testimony of Dr. David E. Dismukes, Ph.D., Docket No. 07-057-13, Page 44, lines 932-939.

current GS-1 customer class to help customers, both residential and commercial, become more energy efficient by offering a suite of DSM programs to encourage customers to upgrade in appliance or equipment efficiency as well as improve the weatherization of homes and businesses.[6] There DSM programs specifically targeted at residential use, as well as separate programs targeted at commercial use. Just like the DSM program designs, the Division believes that it makes common sense to separate the GS-1 class along those programs' targeted demographics, the residential and commercial classes.

Q: What is the main difference the Division sees between the GSR class and the GSC class of customer as proposed by the Company?

A: The main difference the Division sees between the GSR class and the GSC class is the concept of end use versus intermediate or economic use. The residential use of natural gas is for home heating, hot water, cooking and those comforts and conveniences sought in a residential setting. The commercial use of natural gas is associated with an economic process. That process maybe entail the use of natural gas to either provide a comfortable setting in which to conduct economic, public or commercial activities such as office buildings, schools, entertainment facilities, malls or shopping centers or as an input necessary to achieve an end

[6] QGC Application for Approval of 2nd Year Budget for 2008 DSM Programs and Market Transformation Initiative, Docket No. 07-057-08.

product or good such as producing food products in bakeries, fast food establishments and restaurants or the manufacture of products. In any case, the commercial application for the use of natural gas is intermediate to accomplish some commercial or public purpose. Lastly, for national statistical reporting purposes, these same tax code designations are the basis QGC uses to report volumetric information to the EIA regarding natural gas consumption for residential and commercial use in the State.[7] The Division believes it only makes common sense to use the same codes to differentiate the two classes for rate classification purposes.

Q: Are there any other significant differences between commercial and residential users?

A: Yes. Most residential users tend to show usage patterns that are fairly uniform and predictable given weather conditions. They tend to be low load factor customers and their cost-causation reflects this fact. Commercial users, on the other hand, display a variety of patterns. Some small businesses show patterns similar to residential customers and thus have similar cost causation characteristics, hence the recommendation to keep the rate for the first block of 45 Dth of usage the same as that of the residential class. Other commercial users,

[7] See http://www.eia.doe.gov/oil_gas/natural_gas/data_publications/natural_gas_monthly/ngm.html, Tables 12, 13

however, will have high volumes of annual usage but display similarly low load factors (e.g. office buildings). Additionally, some commercial users, like hotels and hospitals, have greater year-round usage. Finally, small industrial customers who fall into this class may use gas solely for manufacturing processes and thus display rather consistent year-round usage with relatively high load factors. Separating the current GS-1 class by tax codes represents a first step toward distinguishing usage patterns and designing rates that reflect both cost causation and appropriate price signals for conservation and efficiency.

Q: Doesn't SLCAP/AARP Witness Charles Johnson believe that a problem with tax codes is the fact that some "commercial" customers in fact may have a residential tax code[8]?

A: Yes, it is a fact there may be some commercial customers who have the improper tax code given the fact that the customer designates whether the use of natural gas is either residential or commercial. Under the current GS-1 rate design, the only advantage of a commercial customer declaring itself as a residential customer is the saving associated with the tax differentials in sales taxes. As stated before, many commercial customers may have similar usage patterns as residential customers. However, QGC's proposed rate design for the GSC class has acknowledged this similarity by providing the same rate structure for the first 45 Dth of monthly usage for both the proposed GSC and GSR rate classes. The 45

[8] Direct Testimony of Charles E. Johnson, Docket No. 07-057-13, page 5, lines 5-6.

Dth for the first block of the proposed GSC rate class is the same design that currently exists in the GS-1 rate class. The issue here is not whether the proper sales tax code is correctly assigned to a residential or commercial customer based on that customer's response to the purpose for natural gas service. The issue is the fact that separate sales tax rates exist for residential and commercial customers and is a means already in place to identify and separate the GS-1 class into the proposed GSR and GSC rate classes.

Q: Does the Division have some idea of how the 45 Dth block will affect the proposed GSC class?

A: DPU Exhibit 6.2R is the Company's response to the DPU's data request 33.01. This exhibit shows the average usage by discrete block increments for the GSR and GSC rate class as currently defined by the tax code designations for all customers who had a bill for 12 months during the 2007 calendar year. This exhibit shows that approximately 62% of the newly proposed GSC customer's average monthly usage for 2007 was below 45 Dth per month (Col J, line 41). Under either the Company's or the Division's proposed rate design, over half of the proposed GSC rate class will effectively have the same rate design as the proposed GSR rate class.

Q: What about commercial customers with an improper tax code that classifies them as residential customers?

A: As just mentioned, for customers whose usage is below 45 Dth per month, there is no difference. However, for commercial customers, incorrectly classified as residential customers, whose usage exceeds 45 Dth per month, the possibility exists of them paying more under the proposed GSR rate class than the proposed GSC rate class.

APPROPIATE BLOCK RATE DESIGN

Q: Why does that happen?

A: Under the rate designs proposals of both the Company and Division for the GSC rate class, there currently is a 2nd block rate applicable to any volumes over 45 Dth per month. The rate effect on those GSC customers whose usage exceeds 45 Dth in any given month is more under the GSR rates than under the GSC rates because of the reduced rate in the 2nd block of the GSC rate class even if that commercial customer has the lower residential tax code assigned to its service.

Q: CCS Witness Dr. Dismukes doesn't support declining block rates for the GSC class.[9] Would flat or inclining block rates create any problems in the proposed GSC class as proposed by CCS Witness Dr. Dismukes[10]?

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[9] Pre-filed Direct Testimony of Dr. David E. Dismukes, Ph.D., Docket No. 07-057-13, Page 46, lines 970-979.

[10] Ibid, Page 44, lines 939-940

A: Yes, and that is why the Division has not proposed such rates in this case. In this initial separation of the GSR and GSC rate classes, the Division supports declining block rates. Over the long term, the Division's policy is to put greater emphasis on the efficient and economic use of natural gas.

The proposed GSC class includes both large and small users as well as users with different and diverse usage profiles and load factors. A single flat or inclining rate structure is likely to have negative consequences when applied to such a broad class. For example, inclining block rates may not be desirable (for both policy and cost causation purposes) for manufactures showing high load factors. Even flat rates need to be tailored to cost causation and thus both customer usage volumes and load factors need to be taken into account. The Division is cognizant of the need to balance the goals of achieving energy efficiency with the avoidance of placing an undue economic burden on those commercial operations whose use of natural gas is intermediate or critical to maintaining their economic existence. For that reason, the Division supports this first step of creating the new and very broad GSC class by sales tax code while maintaining a declining block rate structure.

Q: What would the Division propose for this GSC class going forward?

A: For policy purposes, the Division believes that declining block rates generally send inappropriate price signals to customers, i.e. that the cost of their gas will decrease as they use more of it. The Division recognizes, as described above, that a "one size fit all" approach to customers in the proposed GSC class will not work. Once the new GSC class is separated from the residential customers, it should be possible to better distinguish these characteristics than what now is possible with the GS-1 class. After the initial separation of the GS-1 class into the recommended GSR and GSC rate classes, the Division can support the

recommendation of SLCAP/AARP Witness Charles Johnson for further study, but that study should be of the newly created GSC rate class. Therefore, the Division recommends that the Commission order the Company and other interested parties to form a task force to study the customer characteristics of the new GSC class to further explore the refinement of volumetric breaks and rate design within this class. The Division suggests that the Commission order the newly formed task force to file a report on its efforts and conclusions reached, if any, by May 1, 2009. Based on the conclusions of this task force, in future rate case, the Division may recommend a movement to flat rates and in some circumstances, inclining block rates.

Q: Is it fair to have a flat rate for the GSR rate class when your exhibit 6.2R shows some large users in the GSR rate class?

A: Yes. Exhibit 6.2R shows approximately 5,000 of these large residential users who, during the winter heating season on average exceed 45 Dth/month as well as some who show heavy usage during the summer months. These maybe residential users who have very large homes with multiple gas fired furnaces, heat their driveways in winter, have heated garages, heat swimming pools in the summer, and heat year round outdoor hot tubs as well as some commercial customers with incorrect sales tax codes. The Division recognizes that such residential users will likely face higher overall bills if a flat rate is imposed upon them. However, unlike commercial customers for whom large volumes of usage are necessary aspects of their business activities, large residential users are not consuming these extra volumes of natural gas out of economic necessity. Rather,

these customers consumption is more-likely based upon a life style choice. The Division believes that it is not sound public policy to subsidize such choices through lower block rates for increased consumption. The opportunity exists for these large residential users to become more energy efficient through DSM programs offered by QGC. If some of the large users in the GSR class are truly commercial customers, those commercial customers may be better off under the GSC rate structure by having the correct sales tax code applied to their accounts. The main point is the sales tax codes serve to differentiate the current GS-1 customer class by a definite use of natural gas. That use may be an end use for residential homes or an intermediate use to achieve some public or commercial process. The current GS-1 rate class offers no such distinction. QGC's proposed rate classifications for the GSR and GSC rate classes based on tax codes is a good beginning to better differentiate natural gas usage.

SUMMARY

Q: Would you please provide a summary of the main points of your rebuttal testimony?

A: In summary, the Division recommends the following:

1). The Division supports the Company's recommendation to distinguish the GSR and GSC rate classes by the use of current sales tax codes.

2). Convene a task force to study high volume usage patterns in the newly created GSC class and have a report submitted to the Commission by May 1, 2009.

Q: Does this conclude your prepared rebuttal testimony?

A: Yes it does.