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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to File a General Rate Case	**Docket No. 07-057-13**

PREFILED REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

[COST OF SERVICE, RATE SPREAD, RATE DESIGN]

The UAE Intervention Group hereby submits the Prefiled Rebuttal Testimony of Kevin C. Higgins on cost of service, rate spread, and rate design.

DATED this 22nd day of September, 2008.

/s/_____
Gary A. Dodge,
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 22nd day of September, 2008, to the following

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Rebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 07-057-13

[Cost of Service, Rate Spread, Rate Design]

September 22, 2008

REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. Are you the same Kevin C. Higgins who previously filed direct testimony in this phase of this proceeding on behalf of the Utah Association of Energy Users Intervention Group (UAE)?

A. Yes, I am. A detailed description of my qualifications is contained in Attachment A, attached to my direct testimony on test year, UAE Exhibit TP 1.

Overview and Conclusions

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

A. My testimony responds to the direct testimony of Division of Public Utilities ("DPU") witness Glenn E. Gregory and Committee of Consumers Services ("CCS") witness David E. Dismukes on the subjects of (1) class cost-of-service; and (2) rate spread. I also provide an update to the percentages in my proposed rate spread to reflect updated QGC current revenues.

Q. What are your conclusions and recommendations?

A. (1) I support recommendations by Mr. Gregory and Dr. Dismukes concerning the inclusion of all major rate schedules in the cost-of-service study, as well as their recommendations concerning the treatment of the Natural Gas Vehicle ("NGV") rate. I also support Dr. Dismukes's proposal to reduce line extension allowances by one-third.

(2) I recommend that the Commission reject the changes to QGC's cost-of-service study proposed by Mr. Gregory, with one exception (as discussed in my testimony below).

(3) I recommend that the Commission reject the changes to QGC's cost-of-service study proposed by Dr. Dismukes, without exception.

(4) I recommend that the Commission reject the rate spread proposals advanced by DPU and CCS. I believe that the rate spread proposal I put forward in my direct testimony (as updated in this rebuttal) best balances the need to set rates that are informed by the cost to serve the classes, as well as considerations of fairness, rate stability, and economic impacts. I believe that my proposal to cap the rate increase for any utility-service rate schedule at 200 percent of the system average increase strikes the appropriate balance between cost of service and gradualism, and will produce just and reasonable rates.

Update to UAE Proposed Rate Spread

Q. Please explain the update to your proposed rate spread.

A. The rate spread in my direct testimony uses percentage changes that are based on QGC's current revenues of $233.3 million as depicted in the "COS Detail" worksheet in QGC's rate case model submitted to the Commission on July 25, 2008. The Commission's order approving a rate increase of $11,966,498 applied to that level of current revenues produces an overall percentage increase of 5.13 percent. However, current revenues as depicted on the "Current Rev" worksheet of the July 25th model are approximately $11 million lower; consequently, the percentage increase applied to this lower base is higher – 5.39 percent. I have updated my proposed rate spread to reflect this change using the same methodology described in my direct testimony. This updated rate spread is presented in UAE Exhibit COS 1.1R and reproduced in Table KCH-1R below.

Table KCH-1R
UAE Updated Proposed Rate Spread

Class	Current Revenue	Proposed Revenue	Proposed Increase	Percent Change
GSR	$168,343,169	$179,173,666	$10,830,497	6.43%
GSC	$39,583,436	$39,583,436	$0	0.00%
FS	$3,866,562	$4,283,505	$416,943	10.78%
IS	$510,598	$565,657	$55,059	10.78%
TS	$4,794,617	$5,311,635	$517,018	10.78%
FT-1	$1,481,696	$1,599,527	$117,831	7.95%
FT-1L	$2,976,000	$2,976,000	$0	0.00%
FT-2C	$22,530	$22,530	$0	0.00%
MT	$15,229	$16,440	$1,211	7.95%
NGV	$351,339	$379,279	$26,940	7.95%
Total	$221,945,176	$233,911,674	$11,966,498	5.39%

Class Cost of Service

Q. Have you reviewed the proposed changes recommended by DPU witness Glen E. Gregory and CCS witness David E. Dismukes to the cost-of-service study prepared by Questar Gas Company ("QGC")?

A. Yes, I have.

Q. Do you agree with any of the recommendations put forward by Mr. Gregory or Dr. Dismukes?

A. Yes. QGC's cost of service study excludes a number of rate schedules from the analysis. Mr. Gregory recommends that all major rate schedules should be included in the analysis. Similarly, Dr. Dismukes recommends that QGC's next cost of service study should include all rate schedules. I agree with the thrust of these recommendations.

Further, both Mr. Gregory and Dr. Dismukes recommend that the NGV class be moved more aggressively toward cost-of-service. I agree. The NGV class is not a conventional utility service. It is the "gas station" business. The investment needed to expand this business in response to the rapid growth in demand for natural gas as a vehicle fuel should not be subsidized by traditional utility customers.

Finally, Dr. Dismukes proposes to reduce line extension allowances by one-third. This proposal is consistent with recommendations I made in the previous QGC rate case, Docket No. 02-057-02, and I recommend its adoption in this case.

Q. Do you agree with any of the recommendations by Mr. Gregory or Dr. Dismukes to change a number of the allocation factors used in QGC's cost-of-service study?

A. With one exception, no.

Q. What is the exception?

A. Mr. Gregory recommends changing the weighting applied to Feeder Lines from 60 percent peak / 40 percent throughput to 80 percent peak / 20 percent throughput.[1] Directionally, this is similar to the weighting I recommended in my direct testimony of 75 percent peak / 25 percent throughput. However, Mr. Gregory packages this change with a number of other recommendations with which I disagree.

Q. Please explain.

A. Mr. Gregory opposes QGC's development of the Peak-Day factor based on system design. Instead, Mr. Gregory proposes developing the Peak-Day factor based on usage during the historical peak day of January 15, 2007. I disagree. The peak-related infrastructure put in place by QGC is designed to ensure that firm customers can continue to receive service on an extremely cold day. I will refer to this as the "design peak day." Given the essential nature of natural gas service – particularly during cold weather – it is critical that this amount of infrastructure, i.e., level of peak-day capacity, be in place even if it is not utilized in a typical year, or even for many years in a row. But since the peak-day capacity is built to meet firm requirements on extremely cold days, it is entirely appropriate that the peak-day-related costs of the system be allocated in a manner that reflects the expected usage on the design peak day, as QGC has done.

Mr. Gregory's alternative of using the actual usage on the historic peak day January 15, 2007 fails to capture properly the relationship between design peak day and customer class utilization. On the day in question, Mr. Gregory states that QGC delivered 1,091,289 decatherms. Yet the design peak day for 2007 was 1,341,382 decatherms.[2] On the day that Mr. Gregory proposes to use to allocate peak-day costs, QGC still had capacity available – i.e., the system was not at its design peak day level of utilization. In contrast, on the design peak day, interruptible service would be curtailed, as has occurred in prior years.

Q. What other changes proposed by Mr. Gregory do you disagree with?

A. Mr. Gregory assigns peak-day-related costs to interruptible customers, even though these customers are subject to service interruption on the design day. Mr. Gregory explains:

> Customer classes that are subject to "interruption" should have a reduced demand allocation (as well as reduced rates) that recognizes the possibility of interruption. However, this does not mean that the demand that they place on the system is costless.[3]

Mr. Gregory goes on to propose a demand allocation factor for these types of customers based upon their annual throughput divided by the number of days in a year, which is equivalent to average demand.

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[1] Mr. Gregory also proposes to apply this formulation to Large Diameter mains. This would constitute a change to QGC's Distribution Plant Factor. As I explain in my rebuttal to Dr. Dismukes, I do not support changes to QGC's determination of the Distribution Plant Factor.
[2] Direct testimony of Steven R. Bateson, p. 9, lines 227-228.
[3] Direct testimony of Glen E. Gregory, p. 8, lines 102-105.

Q. What is wrong with this approach?

A. In making this argument, Mr. Gregory is overlooking the fact that in allocating costs, QGC does not apply the Peak-Day factor in isolation, but always combines it with the throughput allocator. (This is the "40% portion" in QGC's 60 / 40 weighting for Allocation Factor 230, which is applied to the costs of compressor stations, high-pressure feeder mains, system regulation, and system measurement.) The throughput allocator plays precisely the role that Mr. Gregory is attempting to duplicate through his proposed demand allocation factor for interruptible loads. That is, the throughput allocator already assigns a portion of major infrastructure costs to interruptible customers based on annual volume – which is mathematically equivalent to average demand. Thus, the assignment of demand costs to interruptible customers based on average demand already occurs whenever the Peak-Day factor is used to allocate costs in QGC's cost of service study. Mr. Gregory's proposal would unreasonably duplicate this application of average demand to interruptible customers. I recommend that his proposal be rejected by the Commission.

Q. Do you have any other disagreements with Mr. Gregory's recommendations?

A. Yes. In his cost of service analysis, Mr. Gregory deleted the credit to interruptible customers that QGC recognized for the reservation value of the peaking gas supply that these customers make available to QGC. The crediting methodology was developed in the task force established pursuant to the Commission's order in QGC's previous rate case, Docket No. 02-057-02. QGC has calculated the credit using a consensus approach that was supported by QGC, UAE, other industrial customers, and DPU. Mr. Gregory

proposes deleting the credit "to reflect the fact that the Company has not purchased gas from interruptible or firm transportation customers for the use of human needs customers for several years."[4]

I strongly disagree with Mr. Gregory's reasoning. The fact that QGC has not been required to call upon this resource in the past several years is irrelevant. The QGC tariff states that interruptible transportation customers must make these supplies available if called upon by QGC. This tariff requirement does not go away if QGC does not exercise it for several years, and the reservation value of the peaking supply does not disappear in the current winter simply because the product was not called upon in the prior winter. QGC relies on this peaking resource in its system planning and avoids the need to purchase additional peaking supplies because this product is available to the Company.

Q. By way of background, please explain the nature of the gas supplies that interruptible customers make available to QGC.

A. Section 5.04 of the QGC tariff provides that interruptible transportation customers must, as a condition of service, offer to sell their gas supplies to the Company for the benefit of the Company and its firm sales customers during periods of interruption. QGC views its interruptible sales service customers as providing an equivalent benefit.

Q. Does QGC rely upon the availability of interruptible customer gas in its planning process?

[4] Ibid. p. 14, lines 225-227.

A. Yes. According to the Company's Integrated Resource Plan, interruptible customer gas is an essential component of QGC's supply portfolio used to meet peak occurrences. QGC plans for using 30,000 Dth per day of interruptible customer gas during a design year,[5] although the amount of gas available from interruptible transportation customers to QGC is much larger than that, and the tariff does not place a restriction on the number of days that this option may be exercised or the amount that can be purchased.

Q. Are interruptible transportation customers compensated for the gas that QGC acquires through this tariff provision?

A. Partially. Interruptible transportation customers are paid an index-based price for any commodity actually taken by QGC under this tariff provision. However, no compensation is paid for the standby service being provided by the interruptible transportation customers. That is, the tariff gives QGC the right to call on the interruptible transportation customers' gas supplies during critical times, but this standby service is being provided free of charge.

Q. What special contract provisions are required of an interruptible transportation customer in order to preserve the value of the call option to QGC?

A. As a condition of service, the tariff requires that an interruptible transportation customer's gas contract may not preclude continued deliveries by its supplier during

[5] QGC Integrated Resource Plan for Plan Year: May 1, 2007 to April 30, 2008, p. S-3.

periods of interruption of interruptible transportation service, nor may it allow, during a period of interruption, for the sale, exchange, transportation, or beneficial use of Company-requested gas supplies for the benefit of anyone other than QGC or parties holding a pre-existing higher contractual priority to the gas.

Q. Does QGC recognize this value by proposing to pay interruptible customers for providing this service?

A. No. But the value is now being recognized in the QGC cost of service study as a credit against the cost to serve interruptible customers. This approach is entirely appropriate and its development was a positive outcome from the task force I referenced above. It is this credit that Mr. Gregory is proposing to delete. If the credit is deleted, then the obligation for interruptible transportation customers to provide peaking supplies should be eliminated as well.

Q. What is your recommendation to the Commission on this matter?

A. Mr. Gregory's proposal to delete the peaking gas credit for interruptible customers should be rejected.

Q. What is your major area of disagreement concerning the cost-of-service recommendations of Dr. Dismukes?

A. Dr. Dismukes recommends modifying QGC's allocation factors by allocating the cost of several plant accounts using a 25 percent weighting of throughput. Dr. Dismukes would apply this throughput weighting to small diameter mains, meters, services, and regulators. He would also apply it to A&G expense.

Allocating the aforementioned plant costs on a throughput basis is entirely without merit. Plant such as meters, services, and regulators are indisputably customer-related. Allocating any part of these costs on a throughput basis would simply transfer cost responsibility for a portion of the distribution infrastructure in Utah's residential neighborhoods to larger-volume industrial customers without any basis.

QGC allocates the cost of small-diameter mains as part of its determination of the Distribution Plant Factor. In developing this factor, QGC utilizes a detailed statistical and spatial analysis. Adding a throughput allocator would provide no improvement to the analysis – it would simply and unfairly shift cost responsibility to larger volume customers. I recommend against any of the proposed changes to QGC's Distribution Plant Factor methodology in this proceeding.

A&G expense is allocated by QGC on the basis of gross plant, which already includes a throughput component. Adding a further throughput weighting, as Dr. Dismukes proposes, is redundant and arbitrary.

Q. What is your recommendation to the Commission on this matter?

A. Dr. Dismukes's proposals to apply a 25 percent throughput allocator to several plant accounts and A&G expense should be rejected by the Commission.

Q. Do you have any comment on Dr. Dismukes's proposal to change the weighting of Allocation Factor 230 to 50 percent peak / 50 percent throughput?

A. I am opposed to this proposal. I addressed this issue at length in my direct testimony, in which I recommended a weighting of 75 percent peak / 25 percent throughput.

Rate Spread

Q. What is your assessment of the rate spread proposals advanced by DPU and CCS?

A. The most dramatic differences between my rate spread proposal and those of DPU and CCS occur in the proposed increases for Transportation Service ("TS") and Interruptible Sales ("IS") customers. DPU is proposing a 25 percent increase for these rate schedules. In arriving at this proposal, DPU, unlike QGC, applied the principle of gradualism to its cost-of-service results. Nonetheless, a rate increase of this magnitude in light of a system increase of 5.39 percent strikes me as excessive. Moreover, the cost-of-service analysis in my direct testimony indicates that a full cost-based increase for TS would be less than the 25 percent increase proposed by DPU. In light of these considerations, I believe that my proposal to cap the rate increase for any utility-service rate schedule at 200 percent of the system average increase is more reasonable.

CCS's proposed treatment of TS customers is, quite frankly, off the charts. CCS proposes a series of gratuitous cost shifts to TS customers sufficient to calculate a rate change to residential customers that is effectively zero, and then recommends a rate increase to TS customers in excess of 170 percent – over 30 times the system average increase. CCS's rate spread proposal should be rejected out of hand.

Q. Does this conclude your rebuttal testimony with respect to cost of service?

A. Yes, it does.