BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	**Docket No. 07-057-13**
Questar Gas Company to Increase	**)**	**Pre-filed Rebuttal Testimony of**
Distribution Non-Gas Rates and	**)**	**David E. Dismukes, Ph.D.**
Charges and Make Tariff	**)**	**For the Committee of**
Modifications	**)**	**Consumer Services**

September 22, 2008

Q. WOULD YOU PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS?

A. My name is David E. Dismukes and I am a Consulting Economist with the Acadian Consulting Group. My business address is 6455 Overton Street, Baton Rouge, Louisiana. I am the same person that filed direct testimony on the behalf of the Utah Committee of Consumer Services ("CCS" or "the Committee") on August 18, 2008.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to some of the issues addressed in the direct testimony of the Division of Public Utilities ("DPU" or "the Division"), the Utah Association of Energy Users Intervention Group ("UAE"), and the American Association of Retired Persons ("AARP"), the Salt Lake Community Action Program ("SLCAP"), and the Crossroads Urban Center ("CUC") (collectively, "the Joint Intervenors"). In particular:

- The proper cost allocation factor for small diameter mains, service lines, and meters and regulators. (Direct Testimony of Mr. Glen Gregory for the Division and Mr. Kevin Higgins for UAE).
- The proper cost allocation factor for feeder lines, compression, regulation, and measurement (Direct Testimony of Mr. Glen Gregory for the Division and Mr. Kevin Higgins for UAE).
- The proper revenue allocation factors for classes excluded from Questar Gas Company's ("Questar," or "the Company") class cost of

service study ("CCOS") (Direct Testimony of Mr. Kevin Higgins for UAE).

- The rate design proposals and analysis offered by the Joint Intervenors (Direct Testimony of Dr. Charles Johnson).
- The rate design proposals offered by the Division (Direct Testimony of Mr. Glen Gregory).

Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

A. After providing a summary of my recommendations and overview, my rebuttal testimony will address each of the specific rebuttal topics I previously mentioned.

II. SUMMARY OF RECOMMENDATIONS

Q. WHAT ARE YOUR SPECIFIC RECOMMENDATIONS IN THIS PROCEEDING?

A. I recommend that the Commission adopt the CCOS and rate design recommendations that I offered in my direct testimony filed on August 18, 2008. There are only a handful of areas where I have disagreements with other parties and even then, the disagreements are primarily based upon specific details and not overall conceptual differences of opinion. There are, however, significant rate implications for each of these specific differences and, on balance, I believe that my recommendations should be preferred since they are (a) based upon prior Commission precedent and/or (b) consistent with other areas of the Company's operations, policies, or prior rate case filings. For instance:

- The Commission should accept my recommended cost allocation factor for small diameter mains since the recommendation is consistent with the Company's policies for line extensions.
- The Commission should accept my recommended cost allocation factor for feeder mains, regulation and measurement since the method is consistent with past Commission policy, within the boundaries that were examined in the Commission-created Rate Design Working Groups, and consistent with the Company's proposals in its last rate case.
- The Commission should accept my recommended revenue allocation factor for omitted classes since it represents a better means of matching costs and revenues.
- The Commission should accept my rate design recommendation which would preserve the current basic service fee ("BSF") rates and start the process of critically examining a number of important rate structure issues including block rates and seasonal differentials. Rate design can be a powerful, and relatively cost-effective tool for the Commission to utilize in its ongoing initiatives on natural gas end use efficiency. Maintaining many elements of the Company's current rate design, like large seasonal differentials and declining block rates, are simply inconsistent with the Commission's decisions in the Company's prior demand-side management ("DSM") proceedings and those associated with the Conservation Enabling Tariff ("CET").

III. OVERVIEW OF POSITIONS

Q. BEFORE DISCUSSING EACH OF YOUR REBUTTAL POINTS, CAN YOU PROVIDE AN OVERVIEW OF WHERE YOU THINK THERE IS GENERAL AGREEMENT BETWEEN YOUR RECOMMENDATIONS AND THOSE OFFERED BY THE INTERVENING PARTIES' IN THEIR DIRECT TESTIMONY?

A. Yes. There are a number of areas where there is close agreement between my testimony and those of the other intervening parties, particularly the Division and the Joint Intervenors. For instance, the recommendations I offered are similar in many ways to:

- The Division and the Joint Intervenor's criticisms about the overall adequacy of the Company's CCOS approach. In particular, the Company's methodology that examines the CCOS only from the perspective of the proposed classes, and not from the prior set of rate schedules and classes.

- The Division and the Joint Intervenors' position that no customer class should be excluded from the CCOS without some well-proven justification.

- UAE and the Division's position about certain cost allocation factors that were utilized by the Company. In particular, I discuss the allocation factor used to distribute the cost of small distribution mains and the allocation factor used for feeder mains, compression, regulation and measurement equipment.

- UAE's disagreement with the Company's proposed revenue allocation factor utilized for the classes omitted in the CCOS.

- The Division and the Joint Intervenors' rejection of the Company's proposed increase to the BSF.

- The Division and the Joint Intervenors' position that the Company's GS-R and GS-C should consider moving away from a tax-based classification to one that rests more on usage characteristics.

Q. WHERE ARE THEIR DISAGREEMENTS?

A. As I indicated earlier, there are four primary and important areas of disagreement between my recommendations and those of the Division and/or UAE including:

- The Division has offered an alternative cost allocation factor for small diameter mains. In theory, we both agree that there are both customer and throughput functions which influence the development of these types of investments, and while my 75/25 percent distribution plant factor study ("DPFS")/throughput allocation factor appears close to the Division's 80/20 proposal, there are important differences particularly in the "sub-allocation" of the 20 percent component.

- The Division and UAE have offered alternative cost allocation factors for feeder mains, compression, regulation and measurement that place considerably heavier weight on the capacity component that my

recommendation and are, in fact, higher than the Company's original proposal.

- UAE and I both agree that the Company's revenue allocation factor for the classes omitted for the CCOS could be improved and have offered alternative allocators.

- The Division is supporting a seasonal differential and declining block rate structure that is not based upon any evidence, is potentially discriminatory, and is inconsistent with the Commission's policies over the past two years attempting to support energy efficiency and conservation.

IV. COST ALLOCATION FACTOR – SMALL DISTRIBUTION MAINS

Q. LET'S TURN TO YOUR FIRST REBUTTAL POINT. CAN YOU SUMMARIZE THE DIVISION'S RECOMMENDATIONS ON THE COST ALLOCATION FACTOR FOR SMALL DISTRIBUTION MAINS, SERVICE LINES, REGULATORS AND METERS?

A. Yes. The Division recommends that the Commission recognize that each of the afore-referenced investments are influenced by both customer and usage considerations. Like my recommendation, the Division recommends that a significant share of these costs (80 percent) be allocated according to the customer-oriented approach developed by the Company in its Distribution Plant Factor Study ("DPFS"). My recommendation was slightly lower requesting the Commission utilize a factor that is comprised of 75 percent of the Company's DPFS measure.

Q. **HOW DID THE DIVISION RECOMMEND THE REMAINING INVESTMENT BE ALLOCATED?**

A. The Division recommends that the remaining 20 percent of the small diameter distribution main investment be allocated on a composite capacity/throughput factor which itself is split on an 80 percent demand/20 percent throughput basis. My recommendation was that my remaining share (25 percent) be allocated on a throughput basis only.

Q. **DO YOU AGREE WITH THE DIVISION'S RECOMMENDATION?**

A. I do agree with the recommendation that a relatively large share of these costs should be allocated on a customer-oriented basis. I disagree, however, with the Division's recommendation that the remaining shares be allocated on a blended throughput and capacity measure. My recommendation was that these costs be allocated on throughput only.

Q. WHY SHOULD THE COMMISSION NOT ADOPT THE DIVISION'S RECOMMENDATION?

A. Distribution mains and their associated supporting equipment are usually associated with moving gas volumes and distribution level throughput to customers, particularly smaller customers. As I noted in my direct testimony, the Company's own distribution main extension policy utilizes throughput as a measure for determining the appropriate level of customer investment support. This policy does not utilize capacity as an influencing consideration. I recommend the Commission recognize this in

determining the appropriate distribution main allocation factor and utilize a 75/25 percent DPFS/distribution throughput factors.

V. COST ALLOCATION FACTOR – FEEDER MAINS, COMPRESSION, REGULATION, AND MEASUREMENT

Q. LET'S TURN TO YOUR SECOND REBUTTAL POINT. CAN YOU DESCRIBE THE DIVISION AND UAE'S PROPOSED COST ALLOCATION FACTOR FOR FEEDER MAINS, COMPRESSION, METERS AND MEASUREMENT?

A. Both the Division and UAE have offered alternative recommendations for the allocation of large diameter mains (feeder mains) and compression. My recommendations, the Division's, UAE's and the Company's all recognize that there are both capacity and throughput considerations that should be incorporated into the allocation factor for these investments. The Division, however, proposes to allocate these costs on a 80-20 peak-throughput basis. UAE recommends these costs be allocated on system load factor consistent with a Peak and Average method. This results in an effective 75-25 peak-throughput allocation. Recall the Company's proposed allocation was 60-40 percent peak-throughput. My recommendation was a 50-50 peak-throughput allocation factor.

Q. WHY SHOULD THE COMMISSION NOT ADOPT THE DIVISION'S RECOMMENDATION?

A There is simply no basis for supporting the Division's recommendation. While my direct testimony noted that cost allocations often included a

considerable degree of subjectivity, the Division's recommendations on this cost allocation factor are not supported by any prior Commission precedent, an alternative methodology, or empirical information. In fact, as I noted in my direct testimony, in the Company's last rate case that did not result in a settlement, the Commission established a weighting of 71 percent throughput and 29 percent peak: an allocation almost inversely related to what the Division is now recommending in this proceeding.

Q. WHAT ABOUT UAE'S RECOMMENDATION?

A. I also disagree with UAE's recommendation. The Peak and Average method has not been utilized in the past by the Commission, and the effective allocation factors that result from this method are beyond what was offered by the Company and represent the outer boundary of allocation factors under consideration from the Rate Design Working Group created after the Company's last rate case. As a result, the high capacity weight included in this factor appears to be designed to place a greater cost burden on smaller customer classes like residential and commercial customers.

VI. <u>REVENUE ALLOCATION FACTOR</u>

Q. LET'S TURN TO YOUR THIRD REBUTTAL POINT. HOW IS UAE PROPOSING TO MODIFY THE COMPAY'S REVENUE ALLOCATION FACTOR FOR THOSE CLASSES OMITTED FROM THE CCOS?

A. UAE notes that the Company's method for allocating revenues from the customer classes omitted from the CCOS are inappropriately matched

with the costs created by those respective classes. UAE, instead, offers that these revenues be allocated across the remaining customer classes on a 75-25 percent peak/throughput factor.

Q. DO YOU DISAGREE WITH UAE?

A I agree with UAE in principle but disagree with their alternative revenue allocation factor. The cost of service factor I recommended in my direct testimony would be more appropriate in allocating these revenues in a fashion that follows the assignment of these classes' costs.

VII. RATE DESIGN PROPOSALS

Q. LET'S TURN TO YOUR FOURTH REBUTTAL POINT. WOULD YOU PLEASE DISCUSSION THE DIVISION'S RATE DESIGN PROPOSALS?

A. The Division has offered a number of rate design proposals that include:

- Rejecting the Company's proposed increase in the BSF.
- Accept the Company's summer-winter differentials.
- Adopt a two part tariff for transportation service customers with a flat volumetric rate.
- Approve the Company's proposed GS-R/GS-C split in this proceeding with an eventual separate into a General Service Commercial Regular (GSC-R) and General Service Commercial Large (GS-L) class in the upcoming rate case.

- Accept flat volumetric rates for the proposed GS-R and IS rate classes.

- Allow a relatively flatter, but still decreasing block rate structure for the GS-C class.

Q. DO YOU AGREE WITH THE DIVISION'S PROPOSALS?

A. I agree with several of the Division's recommendations including the rejection of the Company's proposed BSF increase and the recommended movement of the GS class into a GSC-R and GSC-L class based upon some threshold peak usage level. I disagree with the Division's recommendation to accept the Company's proposed summer-winter differential, as well as the Division's proposed GS-C declining block rate structure.

Q. HOW DO YOU THINK YOUR POSITIONS REGARDING THE DIVISION'S RATE DESIGN PROPOSALS COMPARE TO WHAT HAS BEEN PROPOSED BY THE JOINT INTERVENORS?

A. My positions regarding the Division's recommendations would appear to be consistent with the testimony offered by the Joint Intervenors. Their testimony clearly rejects the Company's BSF proposal and appears to support a GS class split based on usage rather than a tax classification.

Q. WHY ARE YOU OPPOSED TO THE DIVISION'S SEASONAL DIFFERENTIAL AND DECLINING BLOCK RATE PROPOSALS?

A. I am opposed to these proposals for a variety of economic and policy reasons. First, from an economic perspective, there is no cost-justification for either the declining block rate structure nor the seasonal differentials offered by the Company. In fact, the Division's proposal simply re-sculpted (or "re-sloped") the proposal offered by the Company in its application. There is no empirical support for the Division's block levels and no support for the new slopes (or rates). Second, from a policy perspective, the proposal to accept the Company's proposed seasonal differentials and some modified version of its proposed declining block rate structure, is simply based upon an outdated load-building rate design. This type of rate design is inconsistent with the Commission's policy direction over the past two years in the Company's DSM and CET proceedings.

Q. DO YOU HAVE ANY OTHER RATEMAKING POLICY CONCERNS?

A. Yes. The Division's proposal is potentially discriminatory. The Division would offer a set of discounts to one set of customers (commercial) without offering similarly-situated customers comparable discounts other than their tax classification. Large residential customers, for instance, currently face a declining block rate structure under the current GS tariff, but under the Division's proposal, those same large residential customers would become ineligible for the same price discounts offered to commercial customers utilizing the same level of usage. However, under the Division's proposal, commercial customers with the same volumetric

use as large residential usage would continue to receive a discount. Conceptually, this pricing discrimination would also be imposed upon transportation customers under the Division's proposals since a uniform volumetric rate has also been proposed for this new class as well.

VIII. RECOMMENDATIONS

Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS?

A. I recommend that the Commission adopt the CCOS and rate design recommendations that I offered in my direct testimony filed on August 18, 2008 that include:

- The Commission should accept my recommended cost allocation factor for small diameter mains since the recommendation is consistent with the Company's policies for line extensions.
- The Commission should accept my recommended cost allocation factor for feeder mains, regulation and measurement since the method is consistent with past Commission policy, within the boundaries that were examined in the Commission-created Rate Design Working Groups, and consistent with the Company's proposals in its last rate case.
- The Commission should accept my recommended revenue allocation factor for omitted classes since it represents a better means of matching costs and revenues.
- The Commission should accept my rate design recommendation which would preserve the current basic service fee ("BSF") rates and start the

process of critically examining a number of important rate structure issues including block rates and seasonal differentials. Rate design can be a powerful, and relatively cost-effective tool for the Commission to utilize in its ongoing initiatives on natural gas end use efficiency. Maintaining many elements of the Company's current rate design, like large seasonal differentials and declining block rates, are simply inconsistent with the Commission's decisions in the Company's prior demand-side management ("DSM") proceedings and those associated with the Conservation Enabling Tariff ("CET").

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY PREFILED ON SEPTEMBER 22, 2008?

A. Yes, it does.