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

COST OF SERVICE REBUTTAL TESTIMONY OF

ROGER J BALL

22 SEPTEMBER 2008

Q Are you the same Roger J Ball who filed Test Year Direct Testimony in this Docket on 26 January 2008?

A Yes. On 8 February I appeared and testified during the Test Year hearing, when it was admitted into evidence as Exhibit RJB 1.0, together with a statement of my academic and professional qualifications and professional experience as Exhibit RJB 1.1 and my 4 February Test Year Rebuttal Testimony as Exhibit RJB 2.0. On 31 March, I filed my Rate of Return Direct Testimony, on 21 April my Revenue Requirement Direct Testimony, on 28 April my Rate of Return Rebuttal Testimony, and on 12 May my Rate of Return Sur-rebuttal Testimony. Most recently, on 21 May, I appeared and testified during the Rate of Return hearing, when my Rate of Return Direct, Rebuttal and Sur-rebuttal Testimony was admitted into evidence as Exhibits RJB 3.0, RJB 5.0, and RJB 6.0, respectively.

Q What is the purpose of your Cost of Service Rebuttal Testimony?

A To address the cost of service direct testimony of Gary Robinson for Questar Gas Company (QGC) and Marlin Barrow for the Utah Division of Public Utilities (DPU) regarding Extension Area Charges (EAC), General Service South (GSS) rates, and Natural Gas Vehicle (NGV) rates.

EXTENSION AREA CHARGES

Q What did the witnesses write about EACs?

A Mr Robinson didn't mention them.

Mr Barrow proposed to substitute "a 6% financing rate" in place of the original 13.86% or the 9.64% interest rate that replaced it in Docket 05-057-13. As the basis for recommending 6%, Mr Barrow wrote:

> 6% is the rate Questar Gas is authorized to charge as a carrying charge in their Account 191 balance accrual. It also is the interest rate Questar pays to customers if

those customers are required to provide a cash deposit in order to receive service. It is a rate readily used by Questar in their daily operations dealing with customers.[1]

Q What other rationale did Mr Barrow offer for the DPU's 6% recommendation?

A The DPU's focus was on the expiration dates of the EACs.

Apparently, shortly after the Commission denied the GSS/EAC Stipulation in Docket 06-057-T04 in April 2007, "in the summer of 2007, in preparation for this rate case, the Division" asked QGC to calculate expiration dates for the EACs, which it did using 13.86%, 9.64%, 6% and 0%.[2] Attempting to justify the request, Mr Barrow quotes the Commission, which had written:

> we provide the following possible alternative solutions … which would neither violate the preferences statute nor offend rate-making principles … One possibility might be essentially "re-financing" the unpaid balances of the estimated extension costs on a community by community basis.[3]

He reported that, at the current (since 30 September 2005) imputed interest rate of 9.64%: "the estimated expiration date for most communities … goes beyond the original expiration date noting that the community of Brian Head will never pay off."[4]

His recommended 6% rate: "shows all of the communities, with the exception of Brian Head, with an accelerated payoff date when compared to the current rate" but, even at 6%, "Brian Head will never payoff unless 0% is the interest rate and then it may take until 2017 to

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1 *Pre-filed Direct Testimony of Marlin Barrow on Behalf of the Utah Division of Public Utilities Phase 2 – Cost of Service*, 18 August 2008, *In the Matter of the Application of Questar Gas Company to Increase Distribution Non-gas Rates and Charges and Make Tariff Modifications*, Docket 07-057-13 (hereinafter *Barrow Testimony*): lines 62-66.

2 *Barrow Testimony*: lines 36-38 and 49-52.

3 *Order on Stipulation*, 24 April 2007, *In the Matter of the Application to Remove GSS and EAC Rates from Questar Gas Company's Tariff*, Docket 06-057-T04(hereinafter *Order*): page 25, last paragraph, 3rd and 5th sentences.

4 *Barrow Testimony*: lines 53-56.

payoff", so the "Division recommends that customers … should not pay any longer than originally estimated".[5]

According to Mr Barrow:

> The only revenue impact of doing this now is the loss of New Harmony's annual EAC revenue of $2, 061.48 which would be absorbed in the rate design of the GSR and GSC rate schedules.[6]

Q In your opinion, does substituting one interest rate for another qualify as the kind of re-financing contemplated by the Commission?

A No. If I want to re-finance my mortgage, I've essentially got to negotiate an entirely new loan, pay closing costs, etc. When QGC sees an opportunity – say because market interest rates have gone down – to refinance debt, it must pay off the existing note at more or less the same time that it borrows the replacement funds. You can't just unilaterally declare a lower rate.

Besides, the Commission wrote of re-financing "on a community by community basis", and that is not what the DPU proposes. The Commission qualified its "one possibility":

> By amortizing those balances over a longer period of time, rates could be reduced, thereby mitigating the negative impacts of their rates being higher than in other areas of the state.

The Division would, instead, simply impute a lower interest rate, amortising the balances over a shorter period of time. No; that isn't what the Commission suggested at all.

Q What, in your opinion, would be the effect on QGC's GS1 ratepayers if the Commission were to adopt Mr Barrow's recommendations regarding EACs?

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5 *Barrow Testimony*: lines 56-60 and 76-77.

6 *Barrow Testimony*: lines 87-89.

A Every single dollar not collected in EACs from QGC's customers in the communities of Brian Head, Fayette, Joseph & Sevier, New Harmony, Newton & Clarkston, Oak City, Panguitch, and Wales would instead be collected from its ratepayers-at-large. Consumers in New Harmony would see an immediate and considerable reduction in rates, and those in Brian Head in November 2014, responsibility for the aggregate amounts being transferred to all GS1 ratepayers. Those in the other named communities would see considerable reductions sooner than otherwise, the aggregate amounts of those reductions also being transferred to all GS1 ratepayers.

Q Do the EACs recover all of the capital costs and interest that QGC has incurred by extending service into the named communities?

A No. Aggregated line extension allowances were credited against the estimated construction costs, which were themselves based on a minimum system design, while the pipes and distribution were actually built with future growth in each community and towards other communities in mind. Even then, instead of calculating an EAC based upon the estimated costs net of aggregated allowances, QGC determined the (lower) EAC it would ask the Commission to approve based upon how much it thought potential customers would be willing to pay.

Q What do the original balances shown in Col B of Mr Barrow's DPU Exhibit 6.1 represent?

A It is my understanding that they are not the actual total costs of construction of the pipe and distribution to serve the named communities. Rather, I understand them to be the estimated costs of the minimum system designs net of aggregated allowances.

Q Do you have any observations about the numbers of customers in Col D of Mr Barrow's DPU Exhibit 6.1?

A QGC canvassed the residents and business owners in the named communities and asked them to sign service line agreement forms. However, QGC neither enforced those agreements, nor retained them, and the numbers of customers QGC originally represented it expected to attract when seeking extensions of its service territory and approval of the EACs never materialised.

During their canvass, people in New Harmony were told their EAC would be between $25 and $30[7], but QGC eventually determined to set it at $25.14, saying:

> Using the projected capital costs with results of the actual sign up, the required EAC for residential customers in New Harmony would be $25.14 for a projected 10 year period.[8]
>
> With approval of the EAC as set forth in this Application and proposed Tariff Sheet No. 216, construction costs of extending natural gas service to New Harmony *will be recouped from customers within this extension area* as provided for under Mountain Fuel's service extension tariff.[9]

In Oak City: "During the canvass, the Company informed customers that they would pay GS-1 rates with a monthly EAC of $20",[10] but QGC told the Commission that: "the actual EAC should be $30 … the Company proposes, in this instance only, that it be responsible for the per customer $10 monthly difference".[11] Again QGC assured the Commission that:

> With approval of the EAC as set forth in this Application and proposed Tariff Section 8.03, construction costs of extending natural gas service to Oak City will be recouped

[7] *Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony*, 19 June 1997, Docket 97-057-12 (hereinafter *New Harmony Application*): page 1, item 2, sixth sentence.

[8] *New Harmony Application*: page 2, item 4, first sentence.

[9] *New Harmony Application*: page 2, item 5.

[10] *Application of Questar Gas Verified (sic) Company for Approval of Terms of Gas Service to Customers in Oak City*, 5 May 1998, Docket 98-057-04 (hereinafter *Oak City Application*: page 2, item 3, first, second, fourth, eighth and ninth sentences; and page 2, item 3, third sentence.

[11] *Oak City Application*: page 2, item 4, first, and third sentences.

> from customers within this extension area as provided for under QGC's service extension tariff.[12]

QGC rather consistently underestimated the construction costs of its expansion schemes, blundered in calculating and communicating its proposed EACs, and was over-confident that its pricing proposals would make it whole.

Q Were the parties concerned, in applying for, reviewing, and approving the EACs, to balance the interests of QGC, its existing customers, and prospective customers?

A QGC's applications said it was, the Division in its memoranda said it was, and the Commission's order said it was.

Now Mr Barrow says:

> The Division recommends that customers currently paying a monthly EAC charge should not pay any longer than originally estimated, irrespective of whether or not QGC has earned its target ROR."[13]

But that mis-states the true impact of his recommendations, which are really consistent with the actual, as opposed to the stated, positions of QGC, the DPU, and the Commission. All three consistently leave GS1 ratepayers responsible to make QGC whole after it spent whatever it chose on pipes and distribution, and collected whatever it could from those who chose to become and remain customers in the named areas.

The actual (not estimated) costs of construction went into ratebase, and thus became part of the calculation of QGC's revenue requirement. To whatever extent EAC collections fell short of QGC's estimates, GS1 ratepayers became responsible for paying the difference. Customers in the named areas were held entirely harmless if they chose not to take, or to cease taking, service. QGC's investment has been depreciated and its debt service covered

12 *New Harmony Application*: page 3, item 5.

13 *Barrow Testimony*: lines 76-78.

regardless of its incompetent planning and execution of these expansions. Ratepayers-at-large received no benefit from them, but paid an unknown amount for them. That has not been either just or reasonable, and it certainly isn't balanced.

Q Do you have an alternative recommendation to the DPU's with regard to EACs?

A Yes.

The Division is mightily concerned about QGC customers in the named areas, and totally unconcerned about ratepayers-at-large. That's at odds with its statutory duty and with its claims when recommending approval of the EACs in the first place.

Ratepayers have been on the hook for these investments at QGC's rate of return. That's the appropriate interest rate to apply in DPU Exhibit 6.1, not 6%.

But all the capital costs and interest associated with the named areas should be backed out of ratebase and a separate account established for each area. All the associated revenues should be similarly re-applied. Then the Commission will be able to see how big the holes were that QGC dug for ratepayers with these schemes, and transfer them to shareholders where they belong.

GSS RATES

Q What did QGC recommend with regard to GSS rates?

A Filing his Direct Testimony for Questar Gas Company on 19 December 2007, on lines 154-155 Gary Robinson wrote: "The Company proposes that the rates for the GSS rate schedule be calculated by maintaining the double margin rates relative to the GSR rate schedule".

Q And what about the DPU?

A On 18 August 2008, Marlin Barrow filed Direct Cost of Service Testimony for the Utah Division of Public Utilities, recommending the elimination of GSS rates.[14] He begins by asserting that GSS rates were originally set at twice the GS1 rate, but

> whenever the GS DNG rates have changed, the GSS rates have been percentage increased or decreased by the same percentage as the change in the GS rates[15]

so they are now three times the summer rate and 2.5 times the winter rate.[16]

According to QGC's Tariff, Revision 19, dated 15 August 2008, pages 2-2 and 2-3, current rates are:

GS1 Distribution Non-Gas, First 45 Dth, Summer, $1.87712, and Winter, $2.21083;

GSS Distribution Non-Gas, Summer, $4.05191, and Winter 4.16898.

The ratios are, therefore: Summer, 2.15; and Winter, 1.89.

Not only does the DPU participate as of right and statutory duty in all Commission proceedings, including QGC pass-through cases, but it is routinely asked by the Commission to examine and report on all QGC tariff filings. It is therefore difficult to understand how the ratios departed from the originally intended doubling without the DPU recommending them as just and reasonable.

The current ratios, which I have calculated and reported from the present GS1 and GSS rate schedules do not seem far removed from the doubling originally approved. Mr Robinson's recommendation seems a more proportionate solution to the deviation than Mr Barrow's. The current ratios certainly do not justify eliminating the GSS rates.

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14 *Barrow Testimony*: lines 92-94.

15 *Barrow Testimony*: lines 101-103.

16 *Barrow Testimony*: lines 103-105.

Q Does Mr Barrow offer any other justification?

A Yes. He suggests that flaws in the GSS rate design led to QGC proposing EACs in 1995.[17]

In fact, the only "flaw" in GSS rates was that they were not high enough to enable QGC to purport that it could recover its investment and interest in increasingly remote and thinly-populated communities. As long ago as 1966, Questar had charged a multiple, in that case 1.3, of its standard rates for 15 years when it extended service to Roosevelt. In 1986, QGC sought and obtained approval for a 2.0 times multiple for 10 years for Southern System Expansion customers, even though that would generate revenues $284,737 short of the revenue requirement. It was upped to 2.0 for 20 years for the Southwestern Expansion, but even that wouldn't produce a sufficient revenue stream for the Ogden Valley, New Harmony, et seq, hence the introduction of EACs.

Mr Barrow goes on to dangle the notion of applying the same 6% rate he had recommended to evaluate the EACs to revenues from communities in the Southwestern Expansion area, and Elmo and Cleveland, claiming that under such a regime they would have paid off their obligations by 2003 and 2005, respectively.[18]

He writes: "The original filing required a time-period of twenty years in order to achieve an average ROR of 11%."[19] DPU Exhibits 6.2 and 6.3 suggest that the 20-year average rate of return for the Southwestern Expansion area, and Elmo and Cleveland, will be 11.05% and 11.03% respectively. In other words, the existing GSS rates are on track to meet the expectations at the time they were established.

Q So why change from 11% to 6%?

17 *Barrow Testimony*: lines 112-114.

18 *Barrow Testimony*: lines 115-116 and 121-124.

19 *Barrow Testimony*: lines 124-126.

A “The Division believes it is appropriate to apply the same 6% rate to the GSS exhibits as recommended for the EAC charges.” [20] Why? Because “the current GSS rates do not follow assumptions used to establish a twenty-year time frame.” [21] But, as I have just shown, they do.

Also because the “counties currently receiving natural gas service under the GSS rate schedule have been doing so for better than fifteen years.”[22] Yes; well, they signed up for 20 years, so no surprise there.

And because “of the proposed … split of the GS-1 rate schedule into the GSR and GSC rate classes”.[23] But Mr Barrow offers no reason why a factor of 2.0 (or even factors of 2.15 and 1.89 cannot reasonably be applied to separate residential and commercial GSE schedules.

Of course, straining to present its testimony in a sequence arguably more likely to support its recommendations, the DPU chose to write first of EACs, and only then of GSS rates. In fact, as I have just shown, there were no EACs when the GSS rates were established.

But ultimately, one is inevitably drawn to the conclusion that the DPU wants to see and end to GSS rates, and if it takes nearly halving the interest rate to achieve that objective, no worries.

Q What would be the effect on QGC’s GS1 ratepayers if the Commission were to adopt Mr Barrow’s recommendations regarding GSS rates?

A Mr Barrow testifies “that the rate impact to the GSR rate class would be an increase in cost of service revenue of $1.8 million”.[24] Perhaps the DPU has some rationale to explain how such a cost shift could possibly result in just and reasonable rates, but its witness does not offer it.

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[20] *Barrow Testimony*: lines 126-127.

[21] *Barrow Testimony*: lines 133-134.

[22] *Barrow Testimony*: lines 128-130.

[23] *Barrow Testimony*: lines 130-132.

As a GS1 ratepayer, I strenuously object to this proposal, because there would be no conceivable benefit to me or others similarly situated.

Q What about the DPU's proposal with regard to future extensions?

A It is clearly discriminatory. For at least forty years, customers in service territory expansion areas have paid the costs beyond the free line extension allowance. The DPU calculates that those in the Southwestern Expansion area paid off at 6% in 2003, and in Elmo and Cleveland in 2005. It doesn't recommend any refunds, but wants customers in future expansion areas to pay just 6%.

As the Division itself wrote just 11 years ago:

> The proposal has a potential price discrimination issue. Potential communities that are candidates for getting service are divided into two groups. The first group contains those areas that MFS would determine are economically feasible using one of the existing methods discussed above. The other group would be those communities that are not economically feasible to serve using any of the existing methods. This second group would get an additional subsidy that those in the other group would not. The first group could easily argue that they should get the same level of subsidy in the form of a lower up front charge or lower rates.[25]

And this is a prescription for ongoing subsidies from ratepayers-at-large to prospective customers. What happened to:

> Generally speaking, in the past new customers have been subsidized by old customers. Over time new customers have become old customers who help subsidize new customers … Our understanding is that basically the level of subsidy remained the same and that extending service to the areas was made feasible by higher rates, spreading the up front costs over time, etc. This proposal is a major policy change in that there is a significant additional subsidy by existing customers that is specifically identified.
>
> The DPU is aware of the impact that not having natural gas can have on the economic development and growth of rural areas. We also like to see more citizens have the

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24 *Barrow Testimony*: lines 153-154.

25 *Memorandum* to the Commission from Ric Campbell, Lowell Alt and Darrel S Hanson for the Division of Public Utilities, 11 March 1997, *In the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah*, Docket 97-057-04 (hereinafter *Memorandum*).

> advantage of lower energy bills. However, we cannot support accomplishing this by raising the rates of existing customers.[26]

If eliminating GSS rates for Delta, Lynndyl, Leamington, Scipio, Holden, Fillmore, Meadow, Kanosh, Milford, Minersville, Beaver, Newcastle, Enterprise, Central, Veyo, Cleveland and Elmo would have a rate impact of $1.8M now, on top of the line extension subsidies from old to new customers, and on top of QGC's "estimate minimum, build maximum" approach, good ness only knows what future expansions might cost me and other similarly situated GS1 customers.

Q Do you have alternative recommendations?

A Allow prospective customers, whether in QGC's existing service territory or in future expansion areas, the same free line extension allowances, aggregated, whether for a new sub-division or a new community. Beyond that, require QGC to put all investments and associated costs and revenues for each expansion area into a separate account. No more subsidies for QGC's monopoly ambitions from ratepayers at large. Let QGC take the risk that its ventures into new areas will allow it to recover its outlays. Once an outlay is recovered, add the expansion area into general rates. If it doesn't look as if it ever will be, let QGC decide when to write off its losses. It gets a return on equity to compensate it for such risks, and I cannot see where it presently experiences any risk at all.

As the Commission wrote the last time we went around this mulberry bush:

> When considering whether to expand its utility plant, Questar makes its independent business decision on whether to expend its own funds to expand its utility plant to serve new areas, relying upon its applicable tariff charges (generally, line extension fees and utility service rates) to generate sufficient revenues to recoup the costs of the expansion. If the anticipated revenues are insufficient to meet the Company's

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26 *Memorandum*.

business return expectations, vis à vis the expected costs to extend into a new service area, the Company will decide not to enter the new area to provide utility service.[27]

NATURAL GAS VEHICLE RATE

Q Do you wish to make a recommendation regarding the NGV rate in rebuttal to QGC's and the DPU's?

A Yes.

There is no point encouraging either the competitive commercial development of NGV filling pumps or stations, or the individual investment in compressors, by continuing the use of a subsidised NGV rate. Far better to send a realistic price signal based on full cost now, and allow the infrastructure to develop in a sensible open-market fashion.

Moreover, natural gas for vehicles is a recent innovation. While environmentally beneficial, there is no case for those who use gas for long-established purposes such as space and water heating on the GS1 rate schedule subsidising this relatively novel use. Every molecule of NGV gas should come at market, not Wexpro, prices, and the rate should be set accordingly.

The Commission should not again indulge QGC's monopoly ambitions, as it did in approving GSS and EAC rates, by approving any subsidy from payers of other rates to be applied to the NGV rate.

[27] *Order*: page 4, first paragraph, 1st and 2nd sentences.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Cost of Service Rebuttal Testimony of Roger J Ball in Docket 07-057-13 was served upon the following by electronic mail on 22 September 2008:

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