Before the Public Service Commission of Utah

In the Matter of the Application of	)	
Questar Gas Company to Increase	)	Docket No. 07-057-13
Distribution Non-Gas Rates and	)	
Charges and Make Tariff	)	DPU Exhibit 6.0SR
Modifications	)	

Pre-filed Surrrebuttal Testimony

Of

Marlin Barrow

On Behalf of the

Utah Division of Public Utilities

Phase 2-Cost of Service

October 7, 2008

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 and Rebuttal Testimony for the Division in this Docket No. 07-057-13?

A: Yes.

Q: What is the purpose of your surrebuttal testimony?

A: My purpose is the following: (1) Address issues raised by Witness Roger J. Ball in his rebuttal testimony: (2) Clarify the Division position concerning some possibly confusing statements made by Committee of Consumer Services (CCS) Witness Dr. David Dismukes in his rebuttal testimony: and (3) Confirm the position of the Division regarding the Basic Service Fees (BSF) issues raised by Company Witness (Company) Steven R. Bateson's rebuttal testimony.

Q: What were the issues Mr. Ball addressed in his rebuttal testimony that the Division wishes to address?

A: The issues the Division wishes to address concern the objections Mr. Ball raised to the Division's recommendations in Direct Testimony regarding the Extension Area Charges (EAC) and the GSS rate schedule.

Q: What was Mr. Ball's objection to the EAC issue?

A: Mr. Ball objected to the recommendation of the Division to "refinance" the EAC payoff schedules at a 6% rate of interest.[1] Before addressing that issue directly I need to make a correction to my direct testimony, line 88, which Mr. Ball correctly referenced in his testimony. That line was referencing New Harmony's annual EAC revenue as $2,061.48 which is really the monthly income. The correct annual income is twelve times that number or $24,738 (rounded to the nearest dollar). The $2,061.48 number needs to be replaced with the $24,738 on line 88 of my direct testimony.

Let's return to Mr. Ball's objection to "refinancing." Mr. Ball fails to point out that in Docket No. 05-057-13, the Commission approved such a request to change the interest rate for the EAC communities from 13.86% to 9.64%. Also contrary to what Mr. Ball purports, the suggested 6% refinance rate is on a "community by community basis."

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[1] Roger J. Ball Cost of Service Rebuttal Testimony, page 4 of 15, answer to 1st question asked on page, no line numbers provided.

Q: Was this Mr. Ball's only objection to the Division's recommendation regarding the EAC issue?

A: No. Mr. Ball takes time to recount briefly the history behind the creation of the EAC communities, referencing statements made in the various applications at the time they were filed with the Commission as well as concerns and comments of the regulatory agencies. Those regulatory concerns and comments were made before any actual history was available to review. Now, some 10 to 12 years later, we have a history of what has actually happened regarding these communities as shown in DPU Exhibit 6.1 filed with the Division's direct testimony. It is true that at the time the EAC charges were established the Commission contemplated the possibility of some of these areas paying off sooner or later than 15 years. It also is true that the Commission suggested in a previous docket, as pointed out by Mr. Ball, that one alternative to the EAC situation is to "refinance" the unpaid balances and amortize the balances over a longer period of time.[2] However, in retrospect looking again at the Division's Exhibit 6.1, the Division is not sure the Commission contemplated "never" as a realistic pay off scenario, which is the case currently facing the 161 customers in Brian Head, or "never" plus an additional five or ten years amortization at a lower rate. The main point here is that even a "refinance" at 6% doesn't resolve Brian

[2] Commission Order on Stipulation, Docket No. 06-057-T04, 2nd paragraph, page 25.

Head's issue of the customer payments from Brian Head not even covering the interest on the loan thereby causing the current balance owing to exceed the original loan amount.

Q: Is there a way to resolve Brian Head's issue?

A: A 6% rate does accelerate the pay off dates for all of the communities except Brian Head. The reason the Division is concerned about these payoff dates, as currently forecasted under the currently approved 9.64% rate, is with customer account updates, the number of customers for some areas decrease which tends to increase the payoff dates for the remaining customers. The Division considers this to be discriminatory and unfair to customers who continue to reside in these communities and who have been paying their monthly amounts. It is analogous to a bank extending its existing customer's mortgage payoff dates to compensate for any customers who default on their own mortgage loans. For this reason the Division recommends that the original expiration date is the latest date these communities have to pay. They may payoff earlier if growth warrants it.

Q: What if the Commission rejects the 6% refinancing option but approves the recommendation to make the original expiration date the latest dates the current EAC charges are valid?

A: If the Commission only approves the Division's recommendation to make the original expiration the maximum pay off date then New Harmony's annual revenue of approximately $25,000 will be picked up by the other GS-1 rate payers, including those in New Harmony as well as all the other EAC communities, and the recommended Company rates for the GSR and GSC rate schedules will change by $0.0004/Dth. This would increase a typical residential customer's DNG cost, assuming 80 Dth of annual usage, by 3 cents per year.[3]

Q: What were Mr. Ball's objections to the Division recommendations regarding the GSS rate schedule?

A: Mr. Ball begins by correctly pointing out the error I made in calculating the GSS rate differentials between the summer and winter GS-1 rates. He calculates the Summer differential of 2.15 times the GS-1 summer rate and the Winter differential of 1.89 times the GS-1 winter rate, based on a review of the Company's tariff as currently presented.

Q: How was such a mistake made?

A: The mistake the Division made in its initial analysis was by beginning to test some assumptions before all of the relevant facts were fleshed out and failing to go back and change the initial calculations. The correct ratios are 2.31 times for the summer and 2.38 times for the winter.

Q: According to Mr. Ball's calculations, the summer differential is 2.15 times and 1.89 times for the winter. Why the difference?

[3] Calculation provided by QGC based on Company's proposed rate design.

A: The results Mr. Ball obtained is the answer one gets by simply dividing the GS-1 DNG summer and winter rates into the corresponding GSS winter and summer rates as found in the Company's current tariff. However, to make a correct analysis, one must make adjustments to the GSS rates posted in the Company's tariffs for the Conservation Enabling Tariff (CET) and Demand Side Management (DSM) amortization rates. Currently these rates are not shown separately but included at part of the total DNG rate. The Division has recommended that the details to all of the rates become part of the posted tariff, a recommendation the Company has agreed to do. The calculations showing the correct ratios are provided and explained in DPU Exhibit 6.1SR. The point the Division was trying to make in its direct testimony with the rate comparisons differentials is how much the actual rates have changed from the original assumptions used to set the twenty-year pay back period. When one looks at the rates used in the original GSS filings one can see where the rates were assumed to be fixed and held constant for twenty years. Mr. Ball did not address the Division's testimony immediately before the rate differential comparisons which points to the fact that the twenty-year time period was established using a rate that was double the current GS-1 rate of $1.70716 and held constant for the entire twenty-year period. In actual practice, the GSS areas have been charged a double margin rate that has been percentage adjusted with each subsequent rate case. This is analogous to using a fixed rate to set the time period and then changing to a variable rate in actual practice that has adjusted over time when the original analysis used to justify the twenty year time-period was based on a lower fixed constant rate.

Q: If the Commission approves the Company's and Division's recommendation to split the GS-1 rate class into the GSR and GSC rate classes based on tax codes, what is the potential impact to a GSS commercial customer if the GSS rate class remains as currently designed?

A: DPU Exhibit 6.2SR shows this impact. This exhibit was prepared using information furnished in response to DPU data request 39.02. Based on the information for the year 2007, an average of all Commercial GSS customers whose monthly usage exceeded 45 Dth per month was used to calculate the monthly volumes (Exhibit 6.2SR Col B). The reason for the different average rates shown in Column D of the exhibits is due to the declining block designs in the current GS-1 rates and proposed GSC rate designs. The GSS rates are a flat rate for summer and winter. As shown in the example, at current rates, the average rate differential between the GS-1 and GSS rates for Commercial customers is 3.5 times. For a GSS Commercial customer, it is 2.6 times compared to a GSC customer at the Company's proposed rate design.

Q: Mr. Ball discusses your use of a 6% ROR applied to the GSS rate schedules. Why did the Division suggest 6% as justification for elimination of the GSS rates?

A: The purpose of making that comparison was to show that by applying the same 6% rate recommended for the EAC communities to the original assumptions used in the GSS filings, a case could have been made for a ten to twelve-year payback period instead of a twenty-year payback period. The twenty-year time period Mr. Ball feels is important to adhere to can be changed by altering assumptions. The simple fact is that the actual rate implementation has not followed the assumptions used to establish the twenty-year period. Actual costs have not been tracked separately in the GSS areas. The reality of this fact is whether a ten or twenty-year payoff is set as the criterion, at the end of those time periods the Company, the Division, the Commission or any other party has no way of determining whether or not the purported ROR has been realized. As presently set up, the current GSS rates are set to expire in November 2012 and September 2013. At that time, the GSS rates will be dropped and the GS-1 rates will become effective without any formal approval or review by regulatory agencies. Now is the time, in this rate case, to correct this flawed rate design which adheres to a set time period but ignores how that period of time was established. It is the Division's opinion that the GSS rates, as currently applied on a going forward basis, are no longer just and reasonable.

Q: Mr. Ball points to the fact that the Division mentions the rate impact to the GSR rate class of eliminating the GSS rate class would be an increase in cost of service revenue of $1.8 million. Is that still the Division's position?

A: The $1.8 million figure was an estimate of the amount of revenue credit that is attributed to the GSR rate class in the Division's direct testimony. The Division asked in a data request for the Company to calculate the rate impact on the GSR and GSC rate class as well as the IS and TS rate classes if the GSS/IS-4/IT-S were eliminated. Per the response to DPU data request 39.01 based on the Company's proposed rate design if the GSS rate schedules were eliminated the effect on a typical GSR customer's DNG cost would be an increase in annual cost of 67 cents. Note that is total annual cost, not increase in rate.

Q: Mr. Ball suggests that the Division's recommendation that future expansion areas be offered the same 6% rate is a discriminatory practice. Does the Division concur?

A: Mr. Ball may have misconstrued the point of the Division's recommendation. Mr. Ball intimates that current GS-1 customers subsidize future expansion activities. He cites as references comments from the Division regarding Panguitch's efforts to secure a special subsidized rate. The Division did not suggest that future expansion areas be subsidized by current GS-1 rate-payers. The Division used a 6% rate as a possible rate for future expansion and stated, "In order for those monthly charges to be reasonable, some areas may need to find additional funding sources to reduce the total cost of the project that is financed at a 6% interest rate."[4] The intent of that statement was that additional funding sources outside of the Company's resources would be needed in order to make those projects feasible. Of course, to make sure this is not discriminatory, the current EAC communities would have to have their rate changed to 6%.

[4] Pre-filed Direct Testimony of Marlin Barrow, Docket No. 07-057-13, page 11, line 163-166.

CLARIFICATION OF CCS WITNESS DR. DISMUKES STATEMENTS

Q: What statements does the Division need to clarify regarding CCS Witness Dr. Dismukes?

A: The statements the Division wishes to clarify in Dr. Dismukes rebuttal testimony are found at lines 97-98 where he states that the Division supports moving away from a tax-based classification to one that rests more on usage characteristics. In lines 221 through 224 he more closely states the Division's position by stating the Division approves the Company's proposed GS-R/GS-C split with an eventual separate GSC Regular and GSC Large class in the upcoming rate case. Again on lines 240-243, he intimates the Division's recommendation is to support a GS class split based on usage rather than a tax classification.

Q: What is the Divisions recommendation regarding the split of the GS-1 class?

A: Although not explicitly stated in Mr. Gregory's direct testimony, on line 366 through line 369 he states his recommendation to approve the split of the GS-1 class into GSR and GSC rate codes. He later discusses in line 394 through line 399 his recommendation that in the next rate case, the GSC class further develop into a GSC Regular and a GSC Large class based on usage. The initial recommendation for the split of the GS-1 class into a GSR and GSC class in this rate case is based on tax codes. The reasons for this recommendation are discussed in more detail in the Division's Rebuttal testimony filed on September 18th with the added recommendation that a task force further study the GSC class to determine the best way to refine the allocation of the GSC class. Given the reasons raised by the Division in rebuttal testimony with regard to an initial split based on usage, to go ahead and do so now appears to be untenable.

CONFIRM POSITION OF DIVISION REGARDING BSF.

Q: Company Witness Steve Bateson rebuts the Division position regarding the proposed BSF. Does the Division still think the same BSF should be retained in light of the Company's proposed rate changes?

A: Yes, the Division still recommends that all BSF monthly charges should remain unchanged in this rate case. Company Witness Bateson makes strong arguments for changing the BSF based on his cost curve analysis. While the Division does not dispute the Company's methods at this time, the Division does object to the Company's proposed changes for reasons of timing. As previously stated, the decoupling of the GS-1 revenues under the CET pilot program should be allowed to complete the pilot program period without changing BSF structure. The argument here is whether to follow the cost causation principle of fixed fees charges coupled with lower volumetric rates as opposed to sending strong conservation signals with a full decoupling mechanism, such as the CET, and place the cost recovery in higher volumetric rates with appropriate true-ups to that rate. That argument should be deferred to the next rate case when the Company must decide whether to request the continuation of a decoupling mechanism and what role BSF charges will play in that rate design. Until that time, the Division recommends that the BSF charges remain unchanged.

Q: There are Company recommended changes in BSF's to other rate schedules that are not covered by a CET mechanism. What about those schedules?

A: The Division still is recommending no change to the BSF charge for the other schedules in this rate case. The reason for this recommendation is to maintain the same BSF categories in all rate schedules until after the Company's proposed rate schedule consolidations and revisions can be reviewed and ruled on by the Commission. Without maintaining the same BSF categories as explained above, there will be a mixture of meter rating classifications that is not consistent throughout the rate schedules.

Q: Does this conclude your prepared surrebuttal testimony?

A: Yes it does.