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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 SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

[COST OF SERVICE, RATE SPREAD, RATE DESIGN]

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

DATED this 7th day of October, 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 7th day of October, 2008, to the following

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 07-057-13

[Cost of Service, Rate Spread, Rate Design]

October 7, 2008

SURREBUTTAL 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 surrebuttal testimony in this phase of the proceeding?

A. My surrebuttal testimony responds to certain arguments and assertions that are presented in the rebuttal testimony of Questar Gas Company (“QGC”) witnesses Gary L. Robinson and Tina M. Faust.

Q. In this surrebuttal testimony, do you modify any of the positions you put forward in your direct or rebuttal testimony?

A. No, I do not.

Response to Gary L. Robinson

Q. Have you reviewed QGC's proposed changes to its recommended rate increase for TS customers?

A. Yes, I have. As explained in Mr. Robinson's rebuttal testimony, QGC now proposes that TS rates be increased 25 percent instead of the 56 percent previously recommended by the Company.

Q. Have you reviewed Mr. Robinson's comments on your proposed rate spread?

A. Yes, I have. Mr. Robinson argues that my proposed rate cap of 200 percent of the system average increase does not move TS customers far enough toward cost. He states that this approach only moves TS customers 1/5 of the way toward cost.

Q. What is your response to this argument?

A. In my direct testimony I proposed two modifications to QGC's COS study. These two modifications have implications for Mr. Robinson's argument.

My recommendation to change the weightings of Allocation Factor 230 to 75 percent peak / 25 percent throughput is based on the standard application of the Peak and Average method – which is what QGC is employing in Allocation Factor 230, albeit without identifying it by name. In his rebuttal testimony, QGC witness Steven R. Bateson described my proposed weighting for Allocation Factor 230 as "within reason."[1]

[1] Rebuttal testimony of Steven R. Bateson, p. 7, lines 167-168.

My recommendation to allocate FT-1 revenue credit to classes on the basis of Allocation Factor 230 ("feeder lines, etc") instead of DNG revenues is addressed by Mr. Robinson, but I do not believe it is effectively rebutted. Mr. Robinson agrees that the allocation of FT-1 revenues should follow the cost causation for those customers. But then goes on to state:

> The costs associated with the FT-1, FT-2C and the MT customers are allocated to all other classes through the plant allocation factors. For this reason, the Company stands by its original proposal to allocate the revenues from these customers, including the NGV customers, on the relative DNG revenue of the rate classes in the COS.[2]

Mr. Robinson's statement that the *costs* associated with the FT-1, FT-2C and the MT customers are *allocated* to all other classes through the plant allocation factors should not be taken too literally. What actually occurs bears no resemblance to the precision conveyed by Mr. Robinson's statement. As is well understood in this proceeding, the costs associated with the FT-1, FT-2C and the MT customers are <u>unknown,</u> as QGC has excluded these classes from the cost-of-service study. Because the costs for FT-1, FT-2C and MT are excluded from the analysis, they wind up allocated to everyone else by default – prior to the allocation of the revenue credit. And, of course, the allocation of the revenue credit is the issue at hand.

The bias in QGC's treatment of FT-1 revenue credits can perhaps best be illustrated by a couple of simple questions that address what is *plausible* with respect to

[2] Rebuttal testimony of Gary L. Robinson, p. 11, lines 263-267.

the costs caused by FT-1 customers. For example, is it plausible that the exclusion of FT-1 customers from the cost of service study is causing a greater allocation of *metering* costs to other customer classes? Hardly. Yet class recovery of metering costs is included in the DNG revenues used by QGC to allocate the FT-1 revenue credit. Similarly, is it plausible that that the exclusion of FT-1 customers from the cost of service study is causing a materially greater allocation of service lines and small-diameter mains than would otherwise be warranted to other customer classes? Again, hardly. Yet class recovery of services and small-diameter mains is included in the DNG revenues used by QGC to allocate the FT-1 revenue credit. My point here is that QGC's approach clearly inflates the benefit of the revenue credit for classes that incur substantial DNG costs for facilities that are largely unrelated to providing FT-1 service. Mr. Robinson's explanation of the Company's treatment of the FT-1 revenue credit is little more than a tautology that completely sidesteps the substantive question that I have raised regarding the proper alignment of revenue credits with cost causation.

We should also bear in mind that QGC's treatment of the revenue credit in this case is a marked change from QGC's allocation of revenue credits in its previous rate filing, Docket No. 02-057-02, in which revenue credits were allocated on the basis of throughput.

The upshot for rate spread is that if the two modifications I have proposed to QGC's cost of service study are adopted, then applying a 200 percent of system average increase to the TS rate schedule (10.78 percent) would move TS customers about halfway to cost, not just 1/5 of the way as asserted by Mr. Robinson. This is demonstrated by reviewing UAE Exhibit COS 1.1 SR, which shows the revenue increases needed to bring each rate schedule to cost, with my two modifications included in the cost of service study. As the exhibit shows, the TS rate schedule would require a 22 percent rate increase to move to full cost of service.

In all events, I respectfully suggest that the implications of my proposals should give the Commission serious pause before assigning a rate increase to TS customers that is over 460 percent of the system average increase, as recommended by QGC and the Division of Public Utilities. My proposal to cap the rate increase at 200% of the system average is fair and is consistent with past Commission Orders.

Q. How has QGC responded to your recommendation that any Commission-ordered reduction in QGC's proposed revenue requirement for the TS rate schedule should be implemented through a pro-rata reduction in the firm demand charges and volumetric charges proposed by QGC?

A. QGC's position is presented by Mr. Robinson. The Company opposes my pro-rata approach, and instead recommends that TS demand charges and volumetric rates should be recalculated independently after considering all the other changes to allocation factors or COS methodology ordered by the Commission in this case.

Q. What is your response to the Company's rebuttal on this point?

A. The Company's rebuttal discusses Commission-ordered changes in the cost of service methodology, whereas my recommendation concerns Commission-ordered changes in the TS revenue requirement: the two concepts are not the same.

In any case, the pro-rata approach I am recommending is straightforward and highly intuitive. Most importantly, it avoids potential surprise impacts on customers that could result under the Company's proposal to recalculate the relationship between demand charges and volumetric charges once the case is closed. If the Commission orders a rate impact cap that is applicable to TS customers, then there should be some assurance that the firm and interruptible service will be similarly treated by the mitigation. This is accomplished under a pro-rata approach. There is no such assurance under the Company's proposed after-the-fact calculation. When we consider that at one juncture in this proceeding, QGC was proposing to increase rates for transportation service by almost 90 percent, we must conclude that the potential for an after-the-fact negative surprise is simply too great to warrant adoption of the Company's after-the-fact calculation proposal.

Q. How has QGC responded to your recommendation that the Commission reject the Company's proposal to prevent a customer from receiving both sales and transportation service through one meter set?

A. In his rebuttal testimony, Mr. Robinson defends QGC's proposal by stating:

> It is the Company's position that customers who have chosen to purchase their own gas and use transportation service should do so exclusively without having access to firm sales schedules. This is proposed in order to protect the Company-owned

> production for firm sales customers and to insulate these customers from the imposition of additional gas costs caused by transportation customers buying firm sales service.[3]

This reasoning is entirely circular. QGC wants to prevent some customers from remaining (or becoming) firm sales customers in order to protect the Company-owned production for firm sales customers. But the customers who would be kicked off firm sales service are themselves firm sales customers, hence the circularity. QGC does not explain why a firm sales customer who also takes transportation service is not worthy of firm sales service in the first instance. This same customer could instead be taking exclusively sales service in lieu of its hybrid transportation/sales service and have access to even greater supplies of Company-owned gas, with no apparent objection from the Company. Apparently, it is the mere fact that a customer takes transportation service which causes QGC to wish to preclude the customer from taking any firm sales service. This proposed new exclusion is an arbitrary elimination of a customer option. It appears punitive in nature, is without merit and should be rejected by the Commission.

Response to Tina M. Faust

Q. How has QGC responded to your recommendation that the Commission reject certain proposed changes to the pricing provisions of QGC's imbalance charges for transportation service?

[3] Rebuttal testimony of Gary L Robinson, p. 19, lines 477-481.

A. QGC's response is presented in the rebuttal testimony of Tina M. Faust. Ms. Faust reiterates the Company's support for its proposed changes to the tariff.

Q. What is your response to the Company's rebuttal?

A. Transportation service is not a new service, but has been available since the 1980s. In this proceeding, QGC is proposing substantial changes to the imbalance pricing provisions of its tariff that are potentially punitive to customers, particularly those in the southern part of the state. QGC has not presented any evidence that problems have arisen with transportation customer imbalances that warrant the kind of changes the Company is proposing to the terms of its tariff. In particular, the Company has not presented any evidence that customers on the southern part of the system are creating imbalance problems to the detriment of other customers on the system. Absent such evidence, I see no justification for introducing the Southern California Gas Company index for cashing out imbalances for customers in southern Utah, while purchasing negative imbalances from these customers at Rocky Mountain prices. This is a significant pricing change, and in my opinion, the Company has not met its burden of proof that the proposed changes would produce rates that are just and reasonable.

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

A. Yes, it does.