

# 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  
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**SURREBUTTAL TESTIMONY OF CHARLES E.  
JOHNSON**

on behalf of

**AARP, Salt Lake Community Action Program and  
Crossroads Urban Center**

October 7, 2008

1 **Q. Please state your name and business address.**

2 A, My name is Charles E. Johnson. My business address is 1086 - 7B Pleasant Blvd.,  
3 Toronto, Ontario, Canada.

4  
5 **Q. Are you the same Charles E. Johnson who has testified previously in this**  
6 **proceeding?**

7 A, Yes I am.

8  
9 **Q. What is the purpose of your surrebuttal testimony?**

10 A, I will address the rebuttal testimonies of Questar witnesses Bakker and Bateson and DPU  
11 witness Barrow. Mr. Bakker has made numerous erroneous statements about my  
12 testimony which must be corrected. I will respond to his errors about the “cost curves”  
13 and BSF. Mr. Bateson has made an observation about the impact of retaining the current  
14 level of BSF on the volumetric charge that I address. DPU witness Marlin Barrow raises  
15 several points about the division of the GS-1 class that are worth considering and lead me  
16 to even more strongly conclude that the Commission should defer a decision on  
17 separating the class. I reiterate my recommendation to the Commission that it defer a  
18 decision on splitting the GS-1 class and urge the parties to work together to develop a  
19 method that is satisfactory to all.

20  
21 **Q. Please explain the erroneous statements of Mr. Bakker.**

1 A. Questar witness Bakker has stated in his rebuttal testimony that I “suggest[s], without  
2 any factual support, that the proposed security deposit provisions will have no effect on  
3 future uncollectibles or write-offs.” This statement is simply false. I made no such  
4 suggestion.

5  
6 In my direct testimony in response to a question about whether the proposed security  
7 deposit provisions would have a large impact on the Company’s uncollectibles, I  
8 responded:

9 No. According to QGC Exhibit 6.3U, these proposed changes will reduce the bad  
10 debt by 0.08%, an amount for the Utah jurisdiction of less than \$180,000.

11 Not only did I not say that the proposed provisions would have no effect, I referred to the  
12 amount of reduction in uncollectibles Questar claimed as a result of the proposed changes  
13 in its security deposit provisions in its case.

14  
15 A second assertion by Mr. Bakker is also false. He testified that I “suggest[s], without  
16 any basis or factual support, that the Company’s efforts to reduce uncollectibles is [sic]  
17 ineffective.” What my testimony addresses is the total lack of proof that the actions  
18 previously taken by Questar have had any effect on uncollectibles. Specifically, I  
19 testified:

20 “However, there is no evidence that Questar’s uncollectibles have been reduced  
21 by these actions.”

1 I cited Mr. Bakker's "belief" that the actions had reduced Questar's uncollectibles and  
2 proceeded to show that the amount of monthly uncollectibles and arrearages were highly  
3 correlated with the amount of the billings. As I pointed out, the correlation between the  
4 30-day arrearage and billings (with a 30-day lag) has an r-squared of 0.92, which is  
5 extraordinarily high.

6  
7 Moreover, Mr. Bakker has missed the entire point of my argument against increasing the  
8 security deposit charged by Questar.

9  
10 **Q. What is the point of your argument against increasing the security deposit charged**  
11 **by Questar?**

12  
13 A. The point is that while Questar claims the security deposits are imposed on the customers  
14 who create additional uncollectibles, the very policy of imposing additional security  
15 deposit costs on low-income customers increases the likelihood of payment problems and  
16 will lead to even higher uncollectible amounts. Additionally, the loss of those customers  
17 who would remain on the system were it not for the additional security deposit is a loss in  
18 the contribution toward fixed costs that must be made up by other customers.

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20 **Q. Why does the policy of imposing additional security deposits on low-income**  
21 **customers increase the risk of delinquencies?**

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A. First, low-income customers are more likely to have had problems in their payment history. They are more likely to have been late with payments, have had service terminated, or have been delinquent, because they are poor and have difficulty meeting all of their financial obligations. Under the current Questar tariff, these customers are already being charged a security deposit. What Questar’s proposed policy will do is to impose additional costs on all of these customers who have had previous financial problems.

Second, even if some portion of these customers become delinquent in the future, not all of them will, but they all pay. The philosophy Mr. Bakker seems to slavishly pursue is “cost-causation,” even though he frequently misses the target. He is concerned that customers who don’t cause uncollectibles must pay for them. The problem for his approach is that the people who “cause” the uncollectibles can’t pay their bills in the first place, so they can’t pay for the uncollectibles. His solution is to impose additional customer deposits on all customers who have had payments problems in the past. So he reduces the cost imposition from all Residential customers to only those who are new or who have had payment problems, but many of them still are not the ones who “cause” the problem. Some of these customers may default, but many may not, and they still would pay the additional deposits. The problem is that this cost imposition takes cash out of their pocket and they have little cash to spare. Reducing the available cash for these

1 customers will cause more of them to default.

2

3 Third, in my direct testimony, I showed that the arrearages and uncollectibles are highly  
4 dependent on the level of the billing; the higher the billing, the greater the arrearages and  
5 uncollectibles. That means that when charges are increased, uncollectibles increase.

6 Requiring increased financial outlay from these low-income customers before they can  
7 obtain service essentially increases the cost of their service during the first months and  
8 will increase the percentage of them who find it impossible to meet all of their  
9 subsequent financial obligations.

10

11 The result of this is that more of these low-income customers will default and become  
12 delinquent because of Questar's proposed increase in security deposits. And all else  
13 being equal, Questar's uncollectibles will be larger.

14

15 **Q. Have you any other comments on Mr. Bakker's statements on the security deposits?**

16 A. Yes. Mr. Bakker seems to believe that increasing the security deposit requirements on all  
17 customers who have had financial problems in the past will place the cost burden on  
18 those customers who impose the uncollectible costs on Questar, rather than on all of  
19 Questar's Residential customers, but that is not what his proposal succeeds in doing.  
20 What his proposal does is to place the burden on a smaller number of customers; those  
21 customers who have had payment problems in the past. Discrimination against low-



1 income customers with past problems may seem reasonable to Mr. Bakker, but the  
2 Commission should reject this effort by Questar to “punish” customers with past financial  
3 problems.

4  
5 **Q, Mr. Bakker dismisses your request that health and safety issues override the after-**  
6 **hours reconnection fee by saying that the Company will follow its policies of**  
7 **connecting customers during business hours and charging the \$100 fee if the**  
8 **connection is made out-of-hours. Is that satisfactory?**

9 A, No. The point of my discussing this issue at all is that if the Company shuts off gas and  
10 the customer is able to correct the problem and request immediate reconnection because  
11 of health or safety concerns, and reconnection would occur after business hours, the  
12 customer should not be charged the extra reconnection fee. This is unlikely to occur  
13 frequently (Questar only expects 15-20 after-hours reconnection request in total), but an  
14 allowance should be made under these circumstances.

15  
16 **Q. Mr. Bateson claims that the Questar cost curves are the best guidance for**  
17 **determining the Basic Service Fees (BSF) and that you apparently do not**  
18 **understand how they are developed or used. What is your response?**

19 A. I understand perfectly well how these “cost curves” are developed and used. In my direct  
20 testimony, I referred to the approach as “basically” a “fixed/variable” approach to  
21 ratemaking, a characterization to which Mr. Bateson apparently objects and one that

1 perhaps doesn't do justice to the detail which Questar has used in this particular variation  
2 of the fixed/variable approach. It is a more refined version of the fixed/variable approach  
3 than is usually the case, but the curves are still not the cost of supplying gas service to  
4 different sized customers.. Simply saying that the "cost curves" represent the cost of  
5 providing service to customers at various levels of consumption doesn't make it so.

6  
7 Boiled down to its essence, Questar's approach simply assumes that certain costs are  
8 related to various customers and then divides those costs by the throughput. This  
9 division produces a lower value for larger customers because dividing the same  
10 "customer" cost by the larger throughput produces a lower number; not because the cost  
11 is lower, but because the arithmetic simply produces a lower number.

12  
13 The "cost curves" only produce results that are any guidance at all only if one accepts the  
14 argument that a fixed/variable approach to setting rates is appropriate, which I do not.  
15 Otherwise, other considerations prevail. The primary consideration I utilize in the design  
16 of rates for Questar in this case is the conservation of scarce resources.

17  
18 Mr. Bateson misconstrues my statement that setting the BSF is a pricing issue rather than  
19 a costing issue. I did not say that cost was not a consideration. I said that in the context  
20 of reasons that increasing the BSFs was improper, pricing and not costing was the issue.  
21 The two contextual reasons I gave were 1, it is not necessary for revenue stability (a point

1 with which Questar agrees), and 2, the inappropriateness of increasing the BSF while  
2 reducing volumetric charges would encourage rather than discourage consumption.

3  
4 Nor is Mr. Bateson's claim that the BSFs have not changed for 25 years relevant for  
5 determining rates in this proceeding. At this point in time, conservation is an important  
6 factor to consider in designing rates; a point that has been recognized by most other  
7 parties in presenting their cases.. Questar has not contested this point, but has ignored it  
8 in designing rates. As noted in my direct testimony, Questar proposes to recover 36% of  
9 its DNG revenue through the BSF and has offered only its weak claim that the higher  
10 BSFs are "cost-based."

11  
12 **Q. Mr. Bateson also says that retaining the current Residential BSF and increasing**  
13 **volumetric rates would change the cost per Dth by an insignificant amount**  
14 **compared to the "savings a customer sees through reduction in usage." Do you**  
15 **agree?**

16 A. The comparison Mr. Bateson makes is irrelevant, so one cannot agree or disagree. He is  
17 comparing the market price of \$7.50/Dth for purchased gas with the change in the  
18 volumetric charge of \$0.38/Dth that would result from retaining the current Residential  
19 BSF and adding the revenue increase to the volumetric charge. The fact is that if this  
20 Commission increased the volumetric rate instead of increasing the BSF to collect the  
21 additional revenue, the savings per customer for each Dth of reduction would be even

1 greater than under the rates Questar has proposed. That means the customers would have  
2 greater incentive to reduce consumption.

3

4 **Q. DPU witness Barrow raises several points in objecting to the discussion of splitting**  
5 **the GS-1 class in your direct testimony. Do you have any response?**

6 A. Yes, Mr. Barrow makes several valid points about the consequences of misidentifying  
7 customers by tax code and of Residential customers that may use gas above the first 45  
8 Dth block. I agree with several of his observations, but not with his proposal to separate  
9 the GS-1 class by tax code now and refine that separation later. If the class is separated  
10 now, keeping the first block for the GSC rate identical to the GSR rate can have no real  
11 effect on the classes or their rates except for the price of the second block. This really  
12 defeats the purpose of separating the customers into separate classes. If this is the future  
13 rate design, all customers might just as well be retained in the GS-1 class.

14

15 The same problem exists for separating the class as Dr. Dismukes recommends. Once it  
16 is done, the Commission is stuck with that division and if it is inappropriate, correction is  
17 difficult. I repeat my recommendation that the Commission defer this decision to the  
18 next rate case and encourage the parties to work together to propose a manner to divide  
19 the class that satisfies all parties' concerns.

20

21 **Q. Does this conclude your surrebuttal testimony?**

1 A. Yes.