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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 RESPONSE OF THE DIVISION OF PUBLIC UTILITIES TO THE PETITION OF QUESTAR GAS FOR RECONSIDERATION, REVIEW OR REHEARING AND CLARIFICATION OF REPORT AND ORDER ON COST OF SERVICE AND RATE DESIGN

The Division of Public Utilities (Division) hereby responds to the Petition of Questar Gas for Reconsideration, Review or Rehearing and Clarification of Report and Order on Cost of Service and Rate Design (Petition) filed in this docket on January 20, 2009. The Division disagrees with Questar Gas that the GS rate must be raised. The Division agrees with Questar Gas that the commodity portion of the natural gas vehicle (NGV) rates should not be altered in this docket. The Division agrees with Questar Gas regarding cost of service adjustments to the NGV rate, and urges the Commission to adopt the Division's position of a 50% increase to full cost of service in this docket, with full recovery being ordered in the next rate case. Finally, the Division urges the Commission to emphasize that its orders must be implemented promptly, although the

Division recognizes that in this specific instance delaying implementation may be required due to actions and choices by Questar Gas.

I. No Change to the GS Rate Is Necessary

The Division opposes Questar Gas' request to increase the volumetric rate for the GS class from the increase ordered in the June 27th Revenue Requirement order. Questar Gas' application requested a rate increase of $26,966,000. Following the Commission's order determining the test year to be used in this case, Questar Gas filed a revised requested increase of $22,157,542. It appears that Questar Gas received the relief it requested based upon its application, as revised, and the Stipulation to which it agreed as adjusted by the Commission's decision on the return on equity.

In Phase I of this case, the Revenue Requirement portion, Questar Gas and the stipulating parties executed a Stipulation which provided that:

> The Parties agree that the rate increase resulting from the Commission's final order on ROE and approving this Stipulation shall become effective through a percentage increase applied equally to DNG revenue for all customer classes. The increase will be collected through changes to the DNG block rates. When the Commission issues its order on cost of service and rate design, rates will be adjusted, consistent with the order, on a going-forward basis.

Stipulation at pp. 29-30. The Stipulation's increase was based upon the $22,147,542 increase requested and adjustments thereto. The Commission approved the Stipulation and decided other matters such as return on equity, resulting in an order explicitly approving a rate increase of $11,966,500 out of the $22,157,542 requested. See Commission's order in Docket No. 07-057-13 dated June 27, 2008.

On July 10, 2008, the Commission's Secretary sent Questar Gas a letter concerning replacement tariff sheets and the CET (Conservation Enabling Tariff). The letter stated:

> The subsequent completion of Phase II of Docket No. 07-057-13 will determine what further rate changes need to be implemented to specific rate schedules, *with any corresponding modifications to CET provisions beyond the August 15 change. We intend only a prospective change in the CET's revenue per customer monthly figure. We do not intend the August 2008 rate change to address a projected December 2008 CET balance. CET accrual balances and their amortizations are to be made through the separate CET applications referenced in 2.11 of the company's tariff.* (Italics added)

Hearings on Phase II of this case were held October 13 – 15th, 2008. During these hearings, Questar Gas neither offered a response to the Commission Secretary's July letter nor addressed the issue of an additional rate increase being placed into effect through this process and not a separate CET proceeding. In the Phase II order, the Commission expressly stated, "we decline to increase GS-1 rates to recover the Company's projected imbalance of $11.2 million in this DNG rate case." Commission's order in Docket No. 07-057-13 dated December 22, 2008 (Phase II Order) at p. 60. The Commission acknowledged the possible need "to change the percentage increase in the allowed DNG revenue per customer per month from that authorized in Phase I of this proceeding" but did not do so in this docket. Id. The Commission rejected Questar Gas' proposed changes to the CET allowed revenue per customer. Criticizing Questar Gas' revenue forecasts as being inadequate, the Commission wrote:

> One of the difficulties in this case has been the Company's revenue forecasts. In Phase I of this proceeding, the Company provided a forecast of test year revenue based

> on the CET allowed revenue per customer, wherein only a forecast of the number of customers is needed. However, for the cost of service and pricing in Phase II of this proceeding, the Company provided revenues based on a forecast usage at tariff rates. The purpose of a rate case is to establish new tariff rates sufficient to enable the Company to recover the difference in revenue requirement and what the Company is collecting from customers at current tariff rates – not the difference in revenue requirement and what the Company is allowed to collect under the CET. We require in the Company's next rate case that its forecast of revenues in the revenue requirement phase of the proceeding be based not on the CET allowed revenues per customer and a forecast of the number of customers, but instead on a forecast of usage and the tariff rates.

Phase II Order at pp. 60-61.

Thus, it seems that Questar Gas, which as the applicant has the burden of proof, failed to persuade the Commission to increase the GS rates in Phase II. In fact, Questar Gas presented no evidence on this issue either in Phase I or Phase II of this Docket. Seemingly, Questar Gas received the relief it requested in its revised application as modified by the Stipulation, to which Questar Gas agreed, and the Commission approved.

As the Commission noted, Questar Gas will have the opportunity to recover undercollections to the CET account through the semi-annual "true-up" process. Phase II Order at p. 60. While this will delay recovery, Questar Gas will nevertheless earn interest against the balance. The Division does take note of the annual accrual cap for the account (5% of annual DNG revenue or roughly $11.6 million) and further notes that it was never the goal of the CET mechanism to create significant undercollections that Questar Gas would be unable to recover. However, Questar Gas' concerns about the CET caps are unpersuasive. So long as annual accrual caps are not met, even with the existence of the amortization cap, recovery should eventually be made. It is unclear at this time whether the annual accrual cap is likely to be reached. Thus, in the absence of any pressing need to readjust the CET allowed revenues at this time, the Division supports the Commission's decision to defer an increase in the per-customer allowed revenue until the next CET true-up.

It should also be noted that, if Questar Gas feels that the CET process itself is producing undesirable results, this properly can be addressed in the coming rate case, where consideration of a permanent decoupling mechanism will be made.

Finally, the Division feels that there currently is confusion among the parties regarding this matter and therefore requests that the Commission provide written guidance as to Commission's understanding of the proper methodology to reestablish the CET base amounts before the filing of Questar Gas' next rate case. In the interim, if needed, the Division feels Questar Gas could file seeking a temporary increase in the deferred account accrual limit for the CET.

II. Commodity Portion of NGV Rate

The Division supports Questar Gas' request regarding the commodity portion of the NGV rate. The Division believes that the commodity portion of NGV rates is properly adjusted in a "pass-through" proceeding filed pursuant to Questar Gas tariffs approved by this Commission. These tariffs have been applied in pass-through cases that affect NGV rates. The Division requests that the Commission vacate its decision in Docket No. 07-057-13 insofar as it addresses the commodity portion of NGV rates.

The commodity portion of the NGV rate was last before the Commission in Docket No. 08-057-23, a pass-through proceeding under Questar Gas' tariffs, when Questar Gas requested a decrease in annualized gas costs resulting from a commodity decrease netted against a supplier non gas increase. It is in that sort of a proceeding, a pass- through proceeding, where the commodity portion of the NGV rate should be addressed.

Additionally, the Division agrees with Questar Gas that the propriety of including "Wexpro gas" when calculating the NGV rate should be discussed in Docket No. 08-057-21 (addressing NGV policy issues). Whether or not one agrees that Wexpro gas should be excluded from NGV use, there are significant complications in implementing such a policy that has not been discussed. For instance, the NGV rate clearly applies to vehicles using the Questar NGV filling stations. However, some users of CNG are capable of refueling their vehicles at home and thus pay normal residential rates (with Wexpro gas included). Also, transportation gas customers with their own refueling facilities for CNG will also have Wexpro gas included in their rates. Thus, while it is the Division's position that it is desirable for NGV users to eventually pay full cost of service (see below), additional action on NGV issues should be postponed pending further discussion of the policy and practical implications of NGV rates in Docket No. 08-057-21.

III. NGV COS Shortfall

The Division agrees with Questar Gas insofar as it requests increasing the NGV DNG rate in this docket to recover 50 percent of the full cost of service. However, the Division urges the Commission to reconsider its decision to move to recovering 100 percent of the full cost of service beginning July 1, 2009. The Division continues to support its position that the NGV cost of service should be moved to 50% of the full cost of service in this docket, with complete cost of service recovery being implemented in the next rate case. The theory of gradualism and evidence provided in this docket by Division Witness Mr. Marlin Barrow and others supports increasing the rate to 50% of the COS in this case.

IV. Delaying Order's Implementation

Reluctantly, the Division agrees with Questar Gas' request to delay implementation of the order until March 1, 2009 or 10 days after rehearing is concluded. The Division acknowledges that, in this instance, a computer system upgrade causes technical issues warranting a delay, but must note that the decision of when to implement system changes is within Questar Gas' control. Due only to the customer care and billing system's scheduled upgrades, the Division supports Questar Gas' request for a delay in implementation of the Order, but urges the Commission to also reiterate the importance of complying promptly with its orders.

For the reasons set forth above, the Division urges the Commission to take the actions requested.

Respectfully submitted this 4th day of February 2009.

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing RESPONSE OF THE DIVISION OF PUBLIC UTILITIES TO THE PETITION OF QUESTAR GAS FOR RECONSIDERATION, REVIEW OR REHEARING AND CLARIFICATION OF REPORT AND ORDER ON COST OF SERVICE AND RATE DESIGN was sent by electronic mail or mailed by U.S. Mail, postage prepaid, to the following on February 4, 2009.

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