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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE CONSOLIDATED DOCKET OF FORMAL COMPLAINTS AGAINST QUESTAR GAS COMPANY RELATING TO BACK-BILLING	DOCKET 08-057-11 ANSWER OF QUESTAR GAS COMPANY
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Respondent, Questar Gas Company (“Questar Gas” or “Company”), answers the Consolidated Back-billing Complaints related to transponder errors as follows:

INTRODUCTION

Questar Gas values its customers and believes that it must provide high quality service to its customers at just and reasonable rates. Questar Gas regrets that the discovery of errors in a very small percentage of its transponders and the resulting back-billing has caused distress and inconvenience to some of its customers. Questar Gas will cooperate fully in the investigation ordered by the Commission with the hope that a thorough analysis of the issues will appropriately address those customers’ concerns in the public interest.

The use of meters and the process of reading those meters to measure customer gas usage, while accurate for the vast majority of customers, has always resulted in some errors.

Correcting these errors is governed by statute, rules (“Rules”) of the Public Service Commission of Utah (“Commission”) and the Questar Gas Company Natural Gas Tariff, PSCU No. 400 (“Tariff”). Questar Gas has procedures in place to prevent meter reading errors, if possible, and to find the errors that inevitably occur. The use of Automated Meter Reading (“AMR”) and transponders has reduced meter reading errors significantly. As described more fully below, Questar Gas discovered meter recording errors related to a very small percentage of the transponders attached to certain meters. When these errors were discovered, Questar Gas adjusted the bills of customers affected. As a result of a directed and accelerated inspection process, described below, additional transponder recording errors were identified after January, 2008. Prior to January, 2008, the Company and the Division of Public Utilities (“Division”) worked together to resolve any informal complaints related to this issue. There were no formal complaints filed prior to that time. As of March 31, 2008, 61 informal complaints have been filed and of that number, nine customers have filed formal complaints. The Division submitted memoranda to the Commission recommending that three of the formal complaints be set for hearing.¹ The Committee of Consumer Services (“Committee”) submitted a Memorandum requesting, among other things, that the Commission consolidate the formal and informal complaints under one docket.² On April 1, 2008, the Commission issued an Order Consolidating Dockets and Notice of Procedural Conference (“Order”), by which it consolidated the dockets related to each of the complaints and ordered the Division to conduct an investigation into the matter. Questar Gas respectfully submits this Answer in response to the issues raised in the

¹ See, e.g., *Memorandum from the Division of Public Utilities to the Public Service Commission Regarding McMain vs Questar*, dated March 27, 2008.

² *Memorandum from the Committee of Consumer Services to the Public Service Commission of Utah Regarding Questar Transponder Issue*, dated March 28, 2008.

consolidated complaints. To the extent that any of the individual complaints is pursued in a separate docket, Questar Gas reserves the right to submit a specific answer to address any unique or unresolved issues remaining in each complaint.

BACKGROUND

1. Automated Meter Reading and Transponders

Questar Gas reads and records monthly natural gas usage as measured by meters for each of the customers it serves. During the mid-1990s due to the ever-increasing number of meters, and a desire to increase the accuracy and reduce the costs of meter reading, Questar Gas evaluated the use of AMR technology. An extensive and thorough evaluation showed that AMR technology would provide a substantial benefit by increasing the efficiency and accuracy of meter reading and reducing costs. The preferred technology for AMR involved the use of devices known as “transponders.”

Transponders are devices that are attached to meters and automatically record and transmit meter reads from a meter to a remote receiver via radio signal, allowing meter readers to obtain meter reads from Company vehicles. The vehicles have equipment that send a radio signal to the transponders, and the transponders reply by transmitting the meter read to receiving devices in the vehicles. Meter readers no longer need to exit vehicles and walk onto private property to read meters.

2. Transponder Installation

Questar Gas began installing transponders on its gas meters in 1998. Between 1998 and December, 2005, Questar Gas installed transponders on essentially all of its meters.³ Initially,

³ Questar Gas was unable to install transponders on a small number of meters due to the physical location of the meter or to the meter’s use or configuration. Questar Gas continues to install transponders on those meters as it is able.

Questar Gas installed a particular transponder known as a “3.4” model. Between 1998 and 2002, Questar Gas installed 3.4-model transponders on approximately 40% of the natural gas meters in its service areas, mostly outside the Wasatch Front. However, in 2002, the transponder vendor, Elster Integrated Solutions, LLC (“Elster”), stopped producing the 3.4-model transponder, and introduced the “VRT” transponder model. The VRT transponder is superior to the 3.4 model in a number of respects. Among other things, the VRT model has a longer battery life, can report the meter reads from the past 35 days (the 3.4 model could only report the current meter read), has fewer parts, and costs less.

VRT transponders also use an internal adjustable setting called a “pre-divide,” not used in the 3.4 model. The transponder’s pre-divide setting represents a multiplier value to correctly equate a number of revolutions of the meter drive mechanism to a specific quantity of gas. The pre-divide can be set differently to correspond with different meter sizes, allowing a VRT transponder to work with more than one meter size.⁴ The pre-divide must be set properly for the type of meter on which it is installed. An incorrectly set pre-divide can result in a transponder recording error.

Between 2002 and March 2008, Questar Gas installed approximately 500,000 VRT transponders on existing meter sets. Since that time, new meter sets and meter replacements include VRT transponders. Nearly all meters installed on new residences, small commercial and small industrial businesses include pre-installed VRT transponders.

⁴ Questar Gas uses several different sizes of gas meters, depending on customer gas requirements and usage. Meter size is determined by the customer’s natural gas requirements. The most common sizes, used mostly for residential and small commercial customers, have natural gas flows of either one or two cubic feet and are known respectively as “1-foot” or “2-foot” meters.

3. The Conversion to Automated Meter Reading Has Been Successful

Questar Gas and its customers have benefitted from increased meter reading accuracy and reduced costs as well as other benefits resulting from the installation and use of transponders. The Company has significantly reduced its meter reading personnel, thereby reducing overall costs. If the Company were to manually read its meters today, Questar Gas would need about four times the number meter readers currently employed. The Company's use of AMR technology saves the Company and its customers millions annually.

The AMR program has also substantially improved the accuracy and reliability of the meter reading process. For example, prior to installation of transponders, approximately 5%⁵ of customer bills were estimated due to inaccessibility of meters as a result of weather or other impediments.⁶ Today, only approximately 0.5% of the customer bills must be estimated.⁷

The use of AMR technology has resulted in other benefits. For example, meter readers are no longer exposed to the risk of encountering unsafe conditions on private property. The Company receives fewer complaints from customers regarding meter readers entering their property.

4. Testing and Inspection of Transponders

Transponders are tested and inspected thoroughly before and at installation. Elster tested the transponders prior to shipment to the Company for installation. In addition, the Company or its installation contractor tested each transponder shortly after it was installed to determine whether the transponder was advancing. Transponders that failed to properly advance were

⁵ This percentage has varied over the years. In 2000, Questar Gas estimated approximately 5% of customer bills due to various meter reading impediments.

⁶ Section 8.01 of the Tariff allows Questar Gas to estimate usage when it is unable to read the meter.

⁷ In 2007, only about 0.5% of the customer bills were estimated.

repaired or replaced. However, this testing was not designed to specifically identify pre-divide setting errors.

Additionally, Questar Gas' billing system includes processes designed to identify and correct incorrect meter reads. All of these processes have resulted in meter reading error detection and correction. The Company's billing system includes automated safeguards. Specifically, the billing system identifies significant changes in gas usage history and flags identified accounts for further review, often including a physical check of the meter and transponder. For many of the transponders at issue in the complaints, no historical usage information was available and, therefore, the billing system did not identify any marked change.

Transponders are also inspected periodically by the Company during regular meter inspections known as the Meter and Transponder Inspection Program ("MTIP"). This ongoing program has helped to ensure a high level of meter and transponder accuracy. For example, from July, 2006 through January, 2008, the MTIP included the inspection of about 313,500 meters and transponders, greater than one-third of all meters. In addition to other meter- or transponder-related problems, the MTIP revealed that 199 meters, found at an average rate of about nine per month, had VRT transponders with incorrect pre-divide settings (about 0.06% of all transponders inspected). These transponders were either incorrectly recording double or one-half the actual gas used, causing over-billing or under-billing on the associated customer accounts. Questar Gas either credited⁸ or back-billed⁹ each affected customer pursuant to the Tariff and applicable regulations.

⁸ Pursuant to Utah Admin. Code R746-320-9.C.4, Questar Gas computed the overcharges back to the date the transponder was installed and either credited the customer or refunded the entire overcharge amount with interest.

⁹ Utah Admin. Code R746-320-8.A.1 defines a "backbill" as "that portion of a bill, other than a levelized bill, which represents charges not previously billed for service that was actually delivered to the customer before the current billing cycle."

CURRENT COMPLAINTS

1. Change in Bill Adjustments

Prior to September, 2007, the Company had been back-billing for errors caused by incorrect transponder settings only for a period of up to six months prior to the discovery of the error. Questar Gas had been characterizing the errors as “slow registering meters” which, under the Tariff, could only be back-billed for “[o]ne-half the period since the last meter test, or 6 months, whichever is less.” Tariff at § 8.02.

Beginning in May of 2007, a Questar Gas representative met with a Division representative by telephone and in person to discuss the proper back-billing procedure for the transponder-related billing errors. After discussing the matter, the Company representative and the Division representative agreed that the transponder error was more accurately described as a “meter reading or recording” error and, pursuant to the Tariff, should be back-billed for a period of up to 24 months. Tariff at § 8.02. The Division representative also observed that limiting back-billing to only a six-month period would place an unreasonable burden upon other customers due to increasing costs of gas not billed. Accordingly, beginning in about September of 2007, Questar Gas began back-billing those customers with transponder-related billing errors for up to a 24-month period preceding the discovery of the error. Tariff at §8.02.

2. Increase in Discovery of Transponder Errors

As a part of its ongoing effort to reduce metering and meter reading errors, Questar Gas accelerated its inspection of certain meters and transponders. In about September of 2007, Questar Gas began working with Elster to develop a faster, more efficient method to find and correct all incorrect pre-divide settings. Until then, no specific methods existed for this process. Elster provided software in the late fall of 2007 that allowed the Company to query every

transponder's pre-divide setting during normal AMR. Questar Gas tested the software by employing it on every type of meter read with the AMR technology. Though the software was effective in identifying transponder pre-divide setting errors, its use significantly slowed the meter reading process.

During the MTIP, Questar Gas noted that about 60% of the incorrect transponder pre-divide settings were found on transponders attached to a specific meter type, the American 2-foot meter, typically used for small commercial businesses or large residences. An incorrect pre-divide setting on a transponder attached to an American 2-foot meter generally causes the transponder to record and report only half of the natural gas flowing through the meter. The Company therefore directed the inspection of those transponders first. In January, 2008, a Questar Gas Meter Reading Supervisor discovered a method to limit the pre-divide inquiry to the American 2-foot meters. Using this method, the software only requests pre-divide settings from transponders attached to meters of a specific type, while performing normal AMR with all other transponders, so it does not significantly slow the AMR process in general.

From February to March 2008, the Company used the new AMR reading method to check transponder pre-divide settings for more than 82,000 meters (which represents about 9% of all meters installed by the Company). This process combined with the continued MTIP resulted in the identification of approximately 411 more transponders with incorrect pre-divide settings¹⁰, a percentage in line with those found in the MTIP.

Questar Gas has continued checking transponder pre-divide settings for other meter types using the transponder checking software. By the end of this year, the Company will have tested essentially all transponders for pre-divide setting errors. Additionally, the initial inspection

¹⁰ Of these 411 transponders, 395 were attached to American 2-foot meters.

process for new transponder installations includes a pre-divide check, and the MTIP will continue to check each transponder.

RULES AND REGULATIONS GOVERNING BILLING PROCEDURES

The Tariff provides that “[w]hen incorrect billings occur, the Company will have the right to make billing corrections regardless of the cause of error,” subject to certain limitations.¹¹ Billing adjustments occur when a customer has been over-billed or under-billed for natural gas used during a given month or period of months. A customer may be over-billed or under-billed for natural gas service due to many possible causes, including, but not limited to, fast or slow registering meters, crossed meters, incorrect meter reads, incorrect billing estimations, or incorrect transponder settings. Billing adjustments result in either credits or back-bills.

The Tariff provides Questar Gas with the right to collect under-billed amounts. Applicable Utah statute prohibits Questar Gas from discriminating between customers in the same rate schedule. Utah Code Annotated § 54-3-8 (1) provides:

[A] public utility may not . . . as to rates, charges, service, facilities or in any other respect, make or grant any preference or advantage to any person, or subject any person to any prejudice or disadvantage; and . . . establish or maintain any unreasonable difference as to rates, charges, service or facilities, or in any other respect, either as between localities or as between classes of service.

The Commission has determined that this statute prohibits utilities like Questar Gas from permitting customers to pay less for natural gas (whether due to billing errors or other causes) than other customers are paying. The Commission determined that “[U.C.A. § 54-3-8 has] long

¹¹ Tariff at § 8.02. Utah Admin. Code R746-320-8.D.1 provides that “[a] utility shall not bill a customer for service provided more than 24 months before the utility actually became aware of the circumstance, error, or condition that caused the underbilling or that the original billing was incorrect.” Utah Admin. Code R746-320-8.E requires a utility to “permit the customer to make arrangements to pay a backbill without interest over a time period at least equal in length to the time period over which the backbill was assessed.”

been construed *not merely to authorize* backbilling for undercollections . . . *but indeed to mandate* such backbilling.”¹²

In *Covey Apartments*, the Commission dealt with circumstances more extreme than those presented in the current complaints. Covey Apartments, Inc. (“Covey”) was the owner of a block of apartments. A change in meter reading personnel led to incorrect reading of the industrial meter resulting in billing for only 10% of gas used for a period of 10 years. The Commission determined that not only was Questar Gas warranted in billing Covey for the actual usage for 24 months preceding the discovery of the error, Questar Gas was *mandated* to do so. “In regard that harshness, we believe the Commission has adequately ameliorated the hardship on customers underbilled for extended periods by adopting its rule limiting a utility’s recovery to a period of 24 months.” *Id.* at 5.¹³

Questar Gas has complied with the Tariff and Commission Rules with respect to notification, as well as billing adjustments. Questar Gas has notified all customers within three months of discovery of the error, pursuant to Utah Admin. Code R746-320-8.D, and either credited or back-billed customers, in accordance with the Tariff, Commission rules, and the Company’s discussions with the Division. Since the issuance of the Order, Questar Gas has been notifying the customers by letter of the error, but has been treating the back-billed amounts as “disputed.” See *Letter from Ron Jibson, Executive Vice President of Questar Gas Company to*

¹² Report and Order, *Covey Apartments, Inc., v. Questar Corporation*, Docket No. 01-057-09 (Utah PSC Jan. 9, 2002) (emphasis in original).

¹³ Indeed, the Utah Supreme Court has been unequivocal on the issue. In *American Salt Co. v. W.S. Hatch Co.*, 748 P.2d 1060 (Utah 1987), a salt company had entered into an agreement with a common carrier to transport salt from point to point at a rate less than the rate set forth in the common carrier’s general tariff. The common carrier later sued the salt company to recover the rates set forth in its general tariff, which happened to be greater than the value of the salt that was hauled. Both the Commission and the Utah Supreme Court determined that, absent Commission approval to the contrary, the general tariff rate applied, regardless of the hardship it imposed upon the salt company. Indeed, the Supreme Court quoted approvingly the Commission’s determination that “[t]he tariff rates must be charged and collected unless prior specific authorization from [the] Commission is obtained.” *Id.* at 1064 (emphasis in original).

Customer, attached as Exhibit A. In accordance with Utah Admin. Code R746-200-8.D, Questar Gas will not attempt to collect these back-billed amounts until the Commission has rendered a decision in this matter.

CONCLUSION

Questar Gas respectfully submits the foregoing Answer to the Consolidated Complaints. Questar Gas requests that the complainants' requested relief should not be granted. Such relief would be contrary to Commission Rules, the Tariff and prior orders.

Questar Gas will fully cooperate in the Division's investigation into the transponder pre-divide issue. Questar Gas has fully complied with all applicable statutes, regulations and Tariff provisions. The Company strives to adopt best practices to meet its business objectives and fulfill its obligations to its customers. AMR technology is one of those best practices implemented to improve the Company's meter-reading processes. The Company is better serving its customers by becoming more efficient and reducing meter-reading costs and also reducing meter reading errors. The Company regrets and apologizes for any inconvenience or frustration caused by the billing errors, as well as the manner in which Questar Gas communicated the errors to its customers.

WHEREFORE, Questar Gas respectfully submits its Answer to the Consolidated Complaints.

Dated this 15th day of April, 2008.

Respectfully Submitted

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CERTIFICATE OF MAILING

I certify that I mailed a true and correct copy of the foregoing Answer of Questar Gas Company on the 15th day of April, 2008, to parties who have been granted intervention status in this docket. In addition, I certify that I have mailed a true and correct copy to all formal and informal complainants known to date, as well as served by facsimile a copy to the following:

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