Gary A. Dodge, #0897
HATCH, JAMES & DODGE
10 West Broadway, Suite 400
Salt Lake City, UT 84101
Telephone: 801-363-6363
Facsimile: 801-363-6666
Email: gdodge@hjdlaw.com

Attorneys for UAE Intervention Group

Damon E. Xenopoulos
BRICKFIELD, BURCHETTE, RITTS, STONE PC
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
Telephone: (202) 342-0800
Facsimile: (202) 342-0807
Email: dex@bbrslaw.com

Jeremy R. Cook, #10325
PARSONS KINGHORN HARRIS, P.C.
111 East Broadway, 11th Floor
Salt Lake City, UT 84111
Telephone: (801) 363-4300
Facsimile: (801) 363-4378
Email: jrc@pkhlawyers.com

Attorneys for Nucor Steel-Utah

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	**Docket No. 13-057-05**

PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS

The UAE Intervention Group (UAE) and Nucor Steel-Utah (Nucor) hereby submit the Prefiled Direct Testimony of Kevin C. Higgins.

DATED this 30th day of October, 2013.

/s/_____________________________

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 30th day of October, 2013, on the following:

Questar Gas Company:

Colleen Larkin Bell	colleen.bell@questar.com
Jenniffer Nelson Clark	jennifer.clark@questar.com
Barrie McKay	barrie.mckay@questar.com

Division of Public Utilities:

Patricia Schmid	pschmid@utah.gov
Justin Jetter	jjetter@utah.gov
Chris Parker	chrisparker@utah.gov
Artie Powell	wpowell@utah.gov
Carolyn Roll	croll@utah.gov

Office of Consumer Services:

Brent Coleman	brentcoleman@utah.gov
Michele Beck	mbeck@utah.gov
Danny Martinez	dannymartinez@utah.gov

Utah Association of Energy Users:

Gary Dodge	gdodoge@hjdlaw.com
Kevin Higgins	khiggins@energystrat.com
Neal Townsend	ntownsend@energystrat.com

Nucor Steel:

Damon E. Xenopoulos	dex@bbrslaw.com
Jeremy R. Cook	jrc@pkhlawyers.com

Federal Executive Agencies:

Karen White	Karen.White.13@us.af.mil
Christopher Thompson	Christopher.Thompson.5@us.af.mil
Gregory Fike	Gregory.Fike@us.af.mil
Thomas Jernigan	Thomas.Jernigan@us.af.mil

US Magnesium:

Roger Swenson	roger.swenson@prodigy.net

Summit Energy:

Larry R. Williams	larry@summitcorp.net

/s/ ________________________

BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Kevin C. Higgins

on behalf of

UAE and Nucor

Docket No. 13-057-05

October 30, 2013

1 **DIRECT TESTIMONY OF KEVIN C. HIGGINS**

2

3 **INTRODUCTION**

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

5 A. My name is Kevin C. Higgins. My business address is 215 South State

6 Street, Suite 200, Salt Lake City, Utah, 84111.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies

9 is a private consulting firm specializing in economic and policy analysis

10 applicable to energy production, transportation, and consumption.

11 **Q. On whose behalf are you testifying in this proceeding?**

12 A. My testimony is being sponsored by the Utah Association of Energy Users

13 Intervention Group ("UAE") and Nucor Steel-Utah ("Nucor").

14 **Q. Please describe your professional experience and qualifications.**

15 A. My academic background is in economics, and I have completed all

16 coursework and field examinations toward a Ph.D. in Economics at the University

17 of Utah. In addition, I have served on the adjunct faculties of both the University

18 of Utah and Westminster College, where I taught undergraduate and graduate

19 courses in economics. I joined Energy Strategies in 1995, where I assist private

20 and public sector clients in the areas of energy-related economic and policy

21 analysis, including evaluation of electric and gas utility rate matters.

22 Prior to joining Energy Strategies, I held policy positions in state and local
23 government. From 1983 to 1990, I was economist, then assistant director, for the
24 Utah Energy Office, where I helped develop and implement state energy policy.
25 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
26 Commission, where I was responsible for development and implementation of a
27 broad spectrum of public policy at the local government level.

28 **Q. Have you previously testified before this Commission?**

29 A. Yes. Since 1984, I have testified in thirty dockets before the Utah Public
30 Service Commission on electricity and natural gas matters.

31 **Q. Have you testified previously before any other state utility regulatory**
32 **commissions?**

33 A. Yes. I have testified in approximately 150 other proceedings on the
34 subjects of utility rates and regulatory policy before state utility regulators in
35 Alaska, Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,
36 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New
37 York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina,
38 Texas, Virginia, Washington, West Virginia, and Wyoming. I have also filed
39 affidavits in proceedings at the Federal Energy Regulatory Commission.

40

41 **OVERVIEW AND CONCLUSIONS**

42 **Q. What is the purpose of your testimony in this proceeding?**

43 A. My testimony addresses certain revenue requirement issues in this general
44 rate case. As part of my testimony, I make recommendations to adjust the
45 revenue requirement proposed by Questar Gas Company ("QGC"). I also address
46 various QGC proposals to modify its tariff.

47 **Q. What revenue increase is QGC recommending?**

48 A. In its direct filing, QGC is proposing a revenue increase of $18,962,150,
49 or 6.4 percent on an annual basis. QGC subsequently prepared a corrected
50 revenue requirement model that changed the calculation of its revenue
51 requirement increase to $18,963,219, but without amending its application to seek
52 recovery of this slightly greater amount. Similarly, QGC later updated the
53 calculation of its revenue requirement increase to $19,254,007, but again without
54 amending its application to seek recovery of this greater amount.

55 **Q. Please summarize the revenue requirement adjustments you are**
56 **recommending.**

57 A. My recommended adjustments reduce QGC's revenue requirement by a
58 total of **$5,370,957** relative to QGC's updated revenue requirement increase
59 calculation of $19,254,007. These adjustments are presented in Table KCH-1
60 below. My recommended adjustments are as follows:

61 (1) The non-labor O&M expense projected by QGC for the test period
62 contains a cost escalation component to reflect projected inflation for the period

63 extending from April 2013 through December 2014. This approach to ratemaking
64 guarantees inflation before it occurs and builds a "cost cushion" into the
65 Company's revenue requirement that would constitute an unwarranted windfall
66 from the use of a projected test period. It is not reasonable to simply gross up the
67 Company's actual base period costs by an index factor and pass these inflated
68 costs on to customers. I recommend adjusting QGC's non-labor O&M expense to
69 remove projected inflation from the test period. This adjustment reduces revenue
70 requirement by **$1,574,693**.

71 (2) QGC's pension expense should be adjusted using updated assumptions
72 about the Company's 2014 pension costs. This adjustment reduces revenue
73 requirement by **$2,866,303**.

74 (3) QGC's Other Post-Retirement Benefits expense should be adjusted
75 using updated assumptions about the Company's 2014 post-retirement benefits
76 costs. This adjustment reduces revenue requirement by **$929,961**.

77 **Table KCH-1**

78 **UAE / Nucor Revenue Adjustments**

	Adjustment	**Revenue Requirement Impact**
79		
80	Remove inflation escalation	$(1,574,693)
81	Pension expense	$(2,866,303)
82	Other Post-Retirement Benefits expense	$(929,961)
83		
84	TOTAL	$(5,370,957)

85

86 I have not undertaken an exhaustive audit of all test period revenue,
87 expense and other projections of QGC. The absence of comment on my part
88 regarding a particular issue does not signify support for (or opposition to) the
89 Company's filing with respect any such issue. In particular, UAE and Nucor are
90 not recommending a specific adjustment for allowed return on equity, in that they
91 anticipate that this subject will be fully addressed by the Division of Public
92 Utilities and the Office of Consumer Services. The absence of a specific UAE /
93 Nucor adjustment on this subject should not be construed as support for the
94 10.35% return on equity proposed by QGC in this proceeding, which I understand
95 to be well above the return on equity allowed by any state regulatory commission
96 for a U.S. gas utility in 2013. Indeed, the Commission has approved a number of
97 *risk-reducing* measures for QGC (including the 191 balancing account, the
98 infrastructure tracker, revenue decoupling, future test period) that should be taken
99 into account as part of the cost of capital analysis used in setting QGC's
100 authorized return on equity.

101 **Q. Please summarize your recommendations concerning tariff issues.**

102 A. (1) QGC's proposal to alter the qualifying criteria for the FT-1 Rate should be
103 rejected. While the type of break-even analysis proposed by the Company might
104 be appropriate if FT-1 service were a new product, it is not appropriate for a
105 service that has been available for fourteen years and upon which customers have
106 relied in making decisions and investments to remain QGC customers. Further,
107 QGC's proposed criteria are inconsistent with the rest of the Company's filing in

108 that the FT-1 qualifying criteria have been derived using **current** TS rates, not the
109 TS rates that QGC has proposed in this case. Moreover, the TS rates used in the
110 Company's analysis do not escalate over time, despite QGC's history of
111 proposing double-digit rate increases for this service.

112 Although I believe a straightforward rejection of QGC's proposal is the
113 most equitable and appropriate course of action, at a minimum, the qualifying test
114 proposed by QGC should be modified to take into account any directly-assigned
115 QGC costs that an FT-1 customer may have incurred since taking service under
116 that rate schedule. In addition, the cost of TS service used in the analysis should
117 use the TS rates that are approved in this case, plus an escalation factor applied to
118 the ten-year rate analysis to reflect the future rate increases that a customer could
119 reasonably anticipate.

120 (2) QGC's proposal for mandatory interruption testing for interruptible
121 customers is poorly conceived and should be rejected by the Commission.
122 Interruptible service has been offered by QGC for many years without the need
123 for a mandatory interruption requirement. While it is essential that customers
124 receiving interruptible service take action to interrupt during a period of bona fide
125 system need, forcing interruptions annually under the guise of "testing" is
126 environmentally irresponsible and an exercise in economic wastefulness. A more
127 reasonable alternative would be to require interruptible customers to prepare a
128 written plan detailing the actions that will be taken to respond to an order to
129 interrupt. This plan could be refreshed and resubmitted annually to ensure that it

130 remains current. Such a plan, coupled with significant economic consequences in
131 the event of failure to interrupt during an instance of bona fide system need,
132 would be sufficient to ensure that interruptible transportation customers will
133 curtail usage when called upon to do so.
134 (3) The Infrastructure Tracker Pilot Program should remain a pilot and
135 should not be transformed into a permanent program. The program should not be
136 expanded beyond the high-pressure feeder lines for which it was initiated and
137 annual expenditures should be capped at $55 million *without* future adjustments
138 for inflation.
139
140 **REVENUE REQUIREMENT**
141 **O&M Cost Escalation**
142 **Q. What adjustment are you proposing with respect to non-labor O&M**
143 **expense?**
144 A. I am proposing an adjustment to remove the inflation escalator applied by
145 QGC to its test period non-labor O&M expense.
146 **Q. Please explain the basis for your adjustment.**
147 A. The non-labor O&M expense projected by QGC for the test period
148 contains a cost escalation component to reflect projected inflation for the period
149 extending from April 2013 through December 2014.
150 To apply this cost escalator, QGC starts with its actual non-labor O&M
151 expense for the period, April 2012 to March 2013, which is a modification of the

152 base period otherwise used in this proceeding (i.e., the year ending December
153 2012). QGC then applies a series of escalation factors to this modified base-
154 period cost of its materials and services using indices from the Global Insight
155 Power Planner Report.

156 From a ratemaking perspective, I have two serious concerns with this
157 approach.

158 First, at a broad policy level, I have concerns as an economist about
159 regulatory pricing formulations that cause or reinforce inflation. This occurs
160 when *projections* of inflation are built into formulas that are used to set
161 administratively-determined prices, such as utility rates. Such pricing
162 mechanisms help to make inflation a self-fulfilling prophecy. As a matter of
163 public policy, this is a serious concern. It is one thing to adjust for inflation after
164 the fact; it is another to help guarantee it. For this reason, I believe that regulators
165 should use extreme caution before approving prices that guarantee inflation before
166 it occurs.

167 **Q. What is your second major concern?**

168 A. A related, but distinct, concern involves the building of this "cost cushion"
169 into the Company's test period costs. Allowing this type of systemic uplift in
170 rates goes well beyond the basic rationale advanced by advocates for using a
171 projected test period, which is to ameliorate the effect of regulatory lag on the
172 recovery of investment in new plant.

173 **Q. Please explain.**

174 A. This Commission had a long practice of requiring utilities to use historic
175 test periods in setting rates, preferring the certainty of information that comes
176 with using actual expenses, revenue, and investment as the basis for setting rates.
177 The Commission has only relatively recently begun to allow utilities to use
178 projected test periods in setting rates. The primary justification for this practice is
179 to allow a utility with expanding rate base the ability to avoid regulatory lag; that
180 is, the use of a projected test period is intended to provide a utility a better
181 opportunity to recover its investment cost than might occur with an historic test
182 period. Since first allowing projected test periods in 2008,[1] utility test periods in
183 Utah have reached increasingly further into the future; in the instant case, QGC's
184 projected test period extends 18 months beyond the Company's filing date.
185 In this case, QGC is attempting to go well beyond simply aligning the test
186 period with its projected 2014 investment to mitigate regulatory lag; the Company
187 is also attempting to gain an additional benefit by inflating its baseline costs by
188 applying an indexed inflation factor through the end of 2014. Yet the use of an
189 aggressive projected test period is the Company's *choice*: it is not required to do
190 so. QGC should not be rewarded simply by virtue of its test period selection with
191 a windfall mark-up of its baseline costs under the guise of an inflation adjustment.
192 The Commission should not allow the setting of a future test period to also
193 become a vehicle for utility recovery of such "pseudo costs." The best evidence

[1] The Commission departed from its previous practice of requiring historic test periods in Docket No. 07-035-93, in which the Commission approved a projected test period extending approximately 12½ months beyond the utility's filing date.

194 of what it costs QGC for non-labor O&M is the Company's actual cost recorded
195 in the base period, adjusted for known and measurable changes. The cost
196 increases represented by the escalation factors may or may not come to fruition.
197 In any case, QGC should be expected to strive to improve its O&M efficiency on
198 a continuous basis, and thereby lessen the net impact of inflation on its O&M
199 costs. It is not reasonable to simply gross up the Company's actual base period
200 costs by an index factor and pass these inflated costs on to customers, thus
201 virtually assuring utility rate inflation.

202 **Q. Are there ever situations in which inflation should be considered in this**
203 **context?**

204 A. If inflation itself becomes a disruptive element in the U.S. economy, then
205 perhaps it could properly be considered in the context of a future test period, but,
206 even then, after accounting for a productivity offset. The United States
207 experienced major inflation during the late 1970s. In that type of severe
208 increasing-cost environment, some consideration for O&M inflation in a projected
209 test period might be appropriate. However, we are very far from such a cost
210 environment. Inflation in the United States has been at very low levels for several
211 years and the prospects for core inflation, which excludes energy and food prices,
212 remain subdued.

213 **Q. Can you cite to any independent sources to support your contention that the**
214 **prospects for core inflation remain subdued?**

215 A. Yes. I have reviewed the Minutes of the Federal Reserve Open Market
216 Committee meeting for September 17-18, 2013. The published Minutes of that
217 meeting indicate that the Fed's central tendency forecast for core inflation is in
218 the range of 1.2% to 1.3% for 2013 and 1.5% to 1.7% for 2014.

219 **Q. What alternative do you recommend for establishing non-labor O&M**
220 **expense for the projected test year?**

221 A. I recommend adjusting QGC's non-labor O&M expense to remove its
222 projected cost escalation increase for the test period. The impact of this
223 adjustment is shown in UAE/Nucor Exhibit 1.1. This adjustment reduces revenue
224 requirement by **$1,574,693**.

225

226 **Pension Expense**

227 **Q. Please describe the basis for your adjustment to pension expense.**

228 A. The assumptions initially used by QGC to forecast its 2014 pension
229 expense overstated this cost and the Company subsequently updated these
230 assumptions in discovery. The updated pension projections are provided in
231 QGC's Response to DPU 19.03, Attachment 3.

232 **Q. What is your recommendation regarding pension expense?**

233 A. The updated pension assumptions should be used to determine pension
234 expense. The impact of this adjustment is shown in UAE/Nucor Exhibit 1.2. It
235 reduces revenue requirement by **$2,866,303**.

236

237 **Other Post-Retirement Benefits**

238 **Q. Please describe the basis for your adjustment to Other Post-Retirement**
239 **Benefits expense.**

240 A. The assumptions initially used by QGC to forecast its 2014 post-
241 retirement benefits expense overstated this cost and the Company subsequently
242 updated these assumptions in discovery. The updated projections are provided in
243 QGC's Response to DPU 19.03, Attachment 3.

244 **Q. What is your recommendation regarding Other Post-Retirement Benefits**
245 **expense?**

246 A. QGC's updated assumptions should be used to determine Other Post-
247 Retirement Benefits expense. The impact of this adjustment is shown in
248 UAE/Nucor Exhibit 1.3. It reduces revenue requirement by **$929,961**.
249

250 **TARIFF ISSUES**

251 **Qualifications for FT-1**

252 **Q. What is the FT-1 Rate?**

253 A. The FT-1 Rate is offered to customers that are considered to have a bypass
254 option. Customers with a bypass option can economically leave the QGC system
255 by interconnecting directly with an interstate pipeline. The FT-1 Rate is priced
256 more favorably than the TS Rate, which is the rate schedule under which FT-1
257 customers would otherwise most likely be served. The relatively favorable
258 pricing of the FT-1 Rate encourages customers with a bypass option to remain on

259 the QGC system. By remaining on the QGC system, these customers contribute
260 to recovery of QGC's fixed costs, benefitting all other customers.

261 **Q. What has QGC proposed with respect to qualifying for the FT-1 Rate?**

262 A. Currently, the FT-1 Rate is available to customers that have annual usage
263 of at least 100,000 Dth and are located within five miles of an interstate natural
264 gas pipeline. Alternatively, a customer qualifies if its usage is greater than
265 4,000,000 Dth per year. The FT-1 Rate has been available under these same basic
266 terms since 1999.

267 QGC is proposing to change the qualifying criteria to a minimum annual
268 usage of 600,000 Dth, plus an additional 225,000 Dth for every mile away from
269 the interstate pipeline the customer is located. As discussed by QGC witness,
270 Austin C. Summers, QGC based its recommendation on an analysis the Company
271 performed to estimate the point at which the cost of bypassing QGC's system and
272 the cost of remaining on the system were equal.

273 The practical consequence of QGC's proposal would be to force six of the
274 nine current FT-1 customers off the rate.

275 **Q. What is your assessment of QGC's proposal?**

276 A. QGC's proposal is very problematic. While the type of break-even
277 analysis proposed by the Company might be appropriate if FT-1 service were a
278 new product, it is not appropriate for a service that has been available for fourteen
279 years and upon which customers have relied in making decisions and investments
280 to remain QGC customers.

281 The premise of QGC's analysis is that a customer is entitled to remain on
282 the FT-1 Rate only if the economics of incurring the costs of the brand-new
283 investment necessary to effectuate bypass are more favorable to the customer than
284 continuing to pay for QGC tariff service (as a TS customer) – measured over a
285 ten-year period. QGC's analysis implicitly assumes that the investment cost of
286 remaining a QGC customer is zero. From an historical perspective, which must
287 be considered in rendering an equitable decision in this matter, this assumption is
288 incorrect. QGC's analysis ignores the fact that in electing to remain a QGC
289 customer, an FT-1 customer may have incurred many thousands of dollars in
290 directly-assigned costs necessary to take delivery of gas from QGC's system.
291 Having committed to remain on the QGC system (rather than bypass), and having
292 potentially incurred considerable expense in furtherance of that decision, FT-1
293 customers are now subjected to a new qualification test that ignores the
294 investment costs these customers have incurred to remain QGC customers and
295 assumes that the only relevant investment costs for purposes of qualification are
296 those associated with bypass. For customers that invested in QGC facilities in
297 reliance on the FT-1 Rate, the proposed change in qualifications is unreasonable.

298 **Q. Do you have any other concerns about QGC's proposal?**

299 A. Yes. QGC made a similar proposal in the last general rate case, except at
300 that time the Company proposed a qualification test of no less than of 325,000
301 Dth of annual usage, plus an additional 225,000 Dth for every mile away from the
302 interstate pipeline the customer is located. Under the Company's approach,

303 qualification for the FT-1 rate has become a volatile moving target. UAE has at
304 least one member who would qualify to remain on the FT-1 Rate under QGC's
305 previous proposal, but not under the new proposal. QGC's initial proposal was
306 shelved pursuant to a stipulation to examine cost-of-service issues more generally.
307 UAE has been willing to work toward a reasonable compromise on this issue, but
308 QGC's position has only become more aggressive; it is apparent that QGC is
309 primarily interested in forcing most FT-1 customers off this rate irrespective of
310 the decisions and investments these customers may have made to remain on the
311 QGC system.

312 Further, QGC's proposed criteria are inconsistent with the rest of the
313 Company's filing in that the qualifying criteria have been derived using **current**
314 TS rates, not the TS rates that QGC has proposed in this case. (Further, the
315 assumed TS rates used in the Company's analysis do not escalate over time,
316 despite QGC's history of proposing double-digit rate increases for this service.)
317 With the Company proposing to increase TS rates by 50% in this case, the failure
318 of the Company to incorporate this information into its FT-1 analysis has a
319 material impact on the qualifications test. Simply substituting QGC's proposed
320 TS rates for current rates in the Company's analysis alters the criteria for
321 minimum annual usage to 400,000 Dth, plus an additional 180,000 Dth for every
322 mile away from the interstate pipeline the customer is located. While UAE and
323 Nucor do not support the TS rates proposed by QGC in this case, the failure of the

324 Company to make its criteria consistent with the TS rates proposed in its own
325 filing casts serious doubt on the merit of the Company's proposal.

326 **Q. What is your recommendation to the Commission on this issue?**

327 A. I recommend that QGC's proposal to change the FT-1 qualifying criteria
328 be rejected. Having established the qualifications for the FT-1 rate fourteen years
329 ago, the customers currently on that rate have foregone the opportunity to bypass
330 (at historically lower interconnection costs) and may have made significant
331 investments in QGC facilities in order to remain QGC customers. At this date, it
332 is nearly impossible to go back and determine what course of action FT-1
333 customers would have pursued had they known, prior to investing in QGC
334 facilities, that they would ultimately be forced off the FT-1 Rate under the terms
335 of a new qualifications test.

336 **Q. Can the qualifications test proposed by QGC be modified to address your**
337 **concerns?**

338 A. No, not completely. I believe a straightforward rejection of QGC's
339 proposal is the most equitable course of action. At a minimum, however, the test
340 proposed by QGC should be modified to take into account any directly-assigned
341 QGC costs that an FT-1 customer may have incurred since taking service under
342 that rate. That is, the assumed cost of bypass should be reduced by the amount of
343 the historic, directly-assigned cost each FT-1 customer has incurred (since
344 becoming an FT-1 customer) to remain on the QGC system, converted into
345 current dollars (to retain comparability to the assumed cost of bypass). In

346 addition, the cost of TS service used in the analysis should be based on the TS
347 rates approved in this case, plus an escalation factor applied to future years to
348 reflect the rate increases that a customer could reasonably anticipate. The ten-
349 year payback analysis should be performed individually for each FT-1 customer
350 to determine whether the customer qualifies for FT-1 service.

351 **Q. Is your recommendation that the bypass analysis should incorporate TS cost**
352 **escalation inconsistent with your recommendation to remove QGC's inflation**
353 **adjustment from its revenue requirement?**

354 A. No, not at all. The removal of QGC's inflation adjustment from its
355 revenue requirement is a matter of removing pseudo costs that may or may not
356 come to fruition in 2013-14 when *setting just and reasonable rates in this case*. It
357 is an entirely different proposition to purport to be conducting a *long-term*
358 *economic analysis* of break-even costs (from an FT-1 customer's perspective) in
359 which TS rates are presumed to be *unchanged for ten years*. Irrespective of what
360 rate changes actually unfold in the future, it is unreasonable to assume that a
361 customer evaluating economic options today will expect TS rates to remain frozen
362 for the foreseeable future.

363

364 **Interruption Testing**

365 **Q. What has QGC proposed with respect to interruption testing?**

366 A. As discussed in the direct testimony of QGC witness Barrie L. McKay, the
367 Company is proposing to add a testing requirement for interruptible customers

368 that would require at least one interruption test per year. According to the
369 proposal, QGC will give each interruptible customer 24 hours notice prior to the
370 start of the gas day of the interruption test and will dictate the time the test will
371 begin and end. If the customer fails to interrupt, the customer will be subject to
372 Failure to Interrupt charges, which would amount to a year's worth of firm
373 demand charges.

374 **Q. What is QGC's rationale for this proposal?**

375 A. According to Mr. McKay, QGC needs to verify that interruptible
376 customers can stop burning gas when interrupted and that the Company can rely
377 on the interrupted volumes on a peak day. Mr. McKay also states that QGC needs
378 to ensure that interruptible customers are paying a rate that accurately reflects the
379 service they are receiving.

380 **Q. What is your assessment of this proposal?**

381 A. This is a poorly conceived proposal that should be rejected by the
382 Commission. Interruptible service has been offered by QGC for many years
383 without the need for a mandatory interruption requirement. While it is essential
384 that customers receiving interruptible service take action to interrupt during a
385 period of bona fide system need, forcing interruptions annually under the guise of
386 "testing" is an exercise in economic wastefulness. Responding to an interruption
387 mandate will require any number of expensive and disruptive actions on the part
388 of customers ranging from switching to diesel (with needlessly adverse impacts
389 on air quality), switching to electricity (with the potential to incur otherwise

390 unnecessary monthly demand charges) or even cutting production, with the
391 associated negative impact of reduced economic output.

392 Economically, the costs of such an exercise are simply dead weight loss.
393 It is a gratuitous expense that would be incurred solely to meet a "testing"
394 mandate that has not been at all necessary heretofore. Moreover, forcing
395 customers to burn diesel when it is not really necessary not only runs counter to
396 the State of Utah's clean air objectives – it is environmentally irresponsible.

397 **Q. Are you familiar with any other utilities in the western United States that**
398 **have a mandatory interruption program?**

399 A. No. Energy Strategies has reviewed the tariffs of each of the major gas
400 utilities in the western United States and we could find none that has such a
401 requirement. The absence of such a requirement elsewhere in the West is a
402 further indication of its frivolity.

403 I have prepared a summary of the major requirements pertaining to
404 interruption for those major western gas utilities offering interruptible service.
405 This summary is presented in UAE/Nucor Exhibit 1.4.

406 **Q. What other approaches could QGC pursue to verify that interruptible**
407 **customers can stop burning gas when interrupted?**

408 A. One option is to require interruptible customers to prepare a written plan
409 detailing the actions that would be taken to respond to an order to interrupt. This
410 plan could be refreshed and resubmitted annually to ensure that it remains current.
411 The preparation of such a plan, coupled with the significant economic penalties

412 proposed by QGC for failure to curtail, will provide sufficient assurances that
413 customers will curtail when necessary. Undoubtedly, there are other reasonable
414 approaches that could provide QGC with the assurances it is seeking without
415 resorting to wasteful and disruptive mandatory interruptions.
416

417 **Infrastructure Tracker Pilot Program**

418 **Q. What is the Infrastructure Tracker Pilot Program?**

419 A. The Infrastructure Tracker Pilot Program was approved in QGC's last
420 general rate case on a pilot basis. The program allows QGC to use a tracker to
421 recover, between rate cases, the incremental cost of replacing high-pressure feeder
422 lines and related facilities by levying a pro rata surcharge on customer classes.
423 Annual expenditures on program-eligible infrastructure are limited to $55 million
424 on an inflation-adjusted basis.

425 **Q. Does QGC propose to retain this program?**

426 A. Yes. As described in the direct testimony of Mr. McKay, QGC proposes
427 to retain this program and to expand it to include intermediate high-pressure
428 pipelines. The Company proposes to spend approximately $65 million per year in
429 this program going forward, and proposes that this amount be adjusted in future
430 years for inflation.

431 **Q. What is your response to this proposal?**

432 A. I recommend that the Commission proceed with caution. QGC's capital
433 expenditures have increased dramatically over the past several years, as shown in

434 Table KCH-2, below. This dramatic increase has been encouraged by the tracker
435 program, which allows the Company to earn a return on eligible expenditures
436 sooner than would occur under traditional ratemaking.

437 **Table KCH-2**

Questar Gas Company Capital Expenditures
(Dollars in Millions)

Description	Actual		Test Year	
	2011	**2012**	**2013**	**2014**
Distribution Measure & Reg	7.5	16.4	20.3	11.9
Feeder Lines & Mains	65.1	94.9	119.3	122.1
Distribution Compressor Plants	0.3	1.6	8.3	0.5
Distribution Services	10.8	11.8	13.2	15.3
Meters	18.1	17.0	13.2	17.2
Total Distribution System	$101.8	$141.7	$174.3	$167.0
General	25.9	19.5	20.8	21.5
Total Capital Expenditures	$127.7	$161.2	$195.1	$188.5

Test Year derived from the Questar Gas 2013 budget and 2014 forecast.

Actuals from Questar Gas financial records.

438 Table KCH-2 data source: MDR, Data Request No. B4

439 The Infrastructure Tracker Pilot Program should remain a pilot and should
440 not be transformed into a permanent program, nor should the program be
441 expanded beyond the high-pressure feeder lines for which it was initiated.
442 Further, I recommend that annual expenditures be capped at $55 million *without*
443 future adjustments for inflation. Expenditures at this level will allow QGC to
444 pursue the high-pressure feeder projects the Company has planned for 2014. The
445 inflation provision should be removed to provide improved cost containment. An

446 inflation adjustment is inappropriate because this program does not involve
447 ongoing operations and maintenance expenditures, but rather a series of unique
448 feeder replacement projects. There is no reason to expand or add automatic
449 increases to the annual expenditure target.

450 **Q. Does this conclude your direct testimony?**

451 A. Yes, it does.