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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Changes and Make Tariff Modifications	**Docket No. 13-057-05**

REBUTTAL TESTIMONY OF REED RYAN

Utah Asphalt Pavement Association ("UAPA") hereby submits the Rebuttal Testimony of Reed Ryan.

DATED this 12th day of December, 2013.

/s/
____
Douglas E. Griffith,
Attorney for UAPA

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served as indicated below this 12th day of December, 2013, on the following:

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Rebuttal Testimony of Reed Ryan

on behalf of

UAPA

Docket No. 13-057-05

December 12, 2013

UAPA Exhibit 1.0 [Public Version]

REBUTTAL TESTIMONY OF REED RYAN

INTRODUCTION

Q. Please state your name and business address.

A. My name is Reed Ryan. My business address is 7414 South State Street, Midvale, UT 84047.

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

A. I am employed by the Utah Asphalt Pavement Association (UAPA) as the Executive Director of the association. UAPA is a collection of private contractors, oil suppliers, engineering firms, owner-agencies, equipment suppliers and manufacturers, consultants, and maintenance companies all involved in the design, production, construction, maintenance, testing, and inspection of asphalt pavement in the state of Utah. Collectively, asphalt paved roads represent over ninety-percent of the roads in Utah and UAPA represents the majority of the industry involved in the design, construction, and maintenance of those roads. Our primary customers are cities, counties, the Utah Department of Transportation (UDOT), and private developers.

Members of UAPA are primarily IS class customers of Questar Gas Company (QGC). This rate case filing, if approved as proposed by QGC, will have a significant cost impact on our industry and ultimately on the cost of our product priced to our customers. The asphalt industry bids and wins contracts based on the future delivery of our product. These projects are generally completed three months to two years in the future. In the low-bid environment in which we currently conduct business, UAPA members do not have the ability to pass through utility cost increases on existing contracts for future production obligations. As a result, the final determinations in this case will have a direct financial impact on UAPA members and, ultimately, on the customers we serve in the state of Utah.

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

A. My testimony is being sponsored by the Utah Asphalt Pavement Association (UAPA).

Q. Please describe your professional experience and qualifications.

A. I have been employed as the executive director of UAPA since January of 2012. Prior to my employment with UAPA, I worked for the Church of Jesus Christ of Latter-day Saints as a public affairs specialist in Washington, DC. Prior to my employment with the Church, I worked in the United States Senate as a legislative aide for Senator Orrin G. Hatch. I hold the degree of Juris Doctor from The George Washington University and a Bachelor of Arts degree in Political Science from Brigham Young University.

Q. Have you previously testified before this Commission?

A. No.

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

A. No.

Q. What is the purpose of your testimony in this case?

A. To offer rebuttal testimony to the proposed tariff modifications outlined in QGC's filing and the Company sponsored prefiled testimony. Specifically, we wish to address:

1. Interruptible Sales Service Commodity Changes as outlined in prefiled testimony of Mr. Barrie L. McKay starting at line 507.
2. New Main and Services changes as outlined in prefiled testimony of Mr. Austin C. Summers starting at line 487.

Q. Do you agree with the proposed tariff modifications related to Interruptible Sales Service Commodity Changes in QGC's filing?

A. No. Not only has QGC proposed a significant DNG revenue increase, which we recognize is fully within their right to do as part of this and future rate cases, but QGC has also proposed significant changes to the commodity rate for the IS Class of customers. Coupled together, these modifications will result in a substantial increase to the total delivered cost of gas to the IS Rate Class.

While it is not perfect match for our industry, asphalt production facilities and oil terminals currently qualify for and receive service under the IS rate schedule. As an industry, we have a unique profile within QGC's system because we predominately use natural gas during off-peak summer periods for the production of asphalt. Although the current IS rate schedule does not fully recognize the cost responsibility related to our unique off-peak usage pattern, it is the only schedule available to access a seasonal market-based rate. This is important as the schedule, under current rate methodologies, comes as close as possible to providing competitive rates for us to retain and maintain our load on the QGC system – a benefit for both QGC and our industry.

Regarding the proposed changes, QGC's stated impact per customer is between a two-to-three percent (2%-3%) increase in annual natural gas costs.[1] What we have found, however, by asking our members and by conducting internal research, is that this proposed DNG increase and change in methodology from the monthly market index price to the Weighted Average Cost of Gas (WACOG) will affect some IS rate customers by an increase of twenty-five to thirty percent (25%-30%) in annual natural gas costs. This represents, in one instance, an increase of over $400,000 to a single member of UAPA on an annual basis and well over that figure for costs to our industry as a whole. This momentous and concentrated increase is due primarily to QGC's proposal to move away from the methodology it has used to calculate the cost of gas for IS customers for the past ten years.

QGC's stated reason for this change in prefiled testimony is to "avoid inadvertently creating an inter-class subsidy."[2] On the surface, it is difficult to argue with this objective. As an industry we readily recognize that because of our unique predominately summer-weighted load profile, we have been able to access natural gas over the last couple of years at lower prices based on the monthly market index price. Principles of fairness, however, dictate a need to look at the

[1] *See Questar Gas Asks for a General Rate Increase*, Press Release, July 1, 2013
[2] *See*, QGC Exhibit 1.0, Direct Testimony of Barrie L. McKay, Line 504.

entire history of this current tariff and its methodology. In doing so we find for many years prior, IS customers were paying higher market prices when the company cost of gas was, indeed, less expensive. As an industry, we were willing to pay the higher market rates at that time because we realized the stability IS rate designation offered. At the same time QGC enjoyed the readily recognizable benefit that the IS class provided as a revenue stream in the summer months while being fully interruptible when the demand for natural gas is much higher.

Therefore, it becomes more difficult for QGC to argue in favor of eliminating an alleged cross-subsidy now, when in the past the reverse has also been true. For several years IS customers were providing subsidies to other classes by purchasing natural gas at market prices above the cost-of-service gas being provided by QGC to the IS class. This begs us to ask why no such effort was made then to make a change? Knowing the market and economics will again fluctuate in the future, it does not seem reasonable to interject politics and policies, without prior consultation or planning with the customers that it affects most. In reality, such policies do not truly reflect access and opportunity on the market at fair prices for customers that benefit the system in off-peak months.

Should the current methodology undergo significant change as proposed, our industry will continue to use gas service only if the total delivered cost of gas is BTU-competitive with alternative fuels. Historically, this has not always been the case, and we will bypass QGC rate services if they are not designed to produce a market rate that is reasonably cost competitive.

Alternatively, principles of fairness and gradualism offer us an avenue to explore these options in greater detail to mitigate a potential twenty-five to thirty percent (25%-30%) increase in the cost of natural gas for our industry. When, as an association, we asked ourselves if we should even get involved in this rate case, we examined the potential costs and realized that most of what QGC is asking for here in the changes to the IS class will ultimately, and in time, be passed on to our customers (cities, counties, UDOT, and others) simply because we cannot afford to absorb such a change and stay in business.

In Utah, where we already have an identifiable $11.3 billion gap in needed infrastructure investment,[3] such proposed increases to asphalt production costs only add strain to city, county, and state budgets that are buckling under the pressures of today's economy. We are happy to pay for our use of gas to QGC and to share in this burden with other classes of customers as appropriate, but to propose moving the IS class to WACOG which will result in a potential twenty-five to thirty percent (25%-30%) increase for IS customers, is in our perspective, unreasonable and contrary to the long-standing principal of gradualism.

We are grateful that QGC, through settlement agreement negotiations, has worked with UAPA and others on the DNG portion of the agreement. QGC has agreed to an interim study, the purpose of which is to examine the equity of splitting IS and TS rate classes to more readily recognize the unique profile of our industry and others. We sincerely appreciate QGC's efforts in these negotiations, but the real heart of the issue for our industry continues to center on the change of

[3] *See Utah's Unified Transportation Plan,* Page 32.

the methodology from the monthly market index price to the WACOG. We have essentially agreed to the pennies and dimes while the ten and twenty-dollar bills remain on the table, much to the continued consternation of our industry and our customers.

We believe it is reasonable for the Commission to thoroughly investigate the merits of QGC's proposed commodity changes to the IS Rate Class. However, we do not believe this rate case provides the mechanism to fully investigate the potential consequences of these modifications. Consequently, we recommend the Commission stay the change to the modification of the commodity cost of gas methodology for IS customers to allow the agreed-upon interim task force, with the needed input from our industry and others which were not present prior to the filing of this rate case, to study and develop rate classes that more truly reflect predominantly summer-weighted usage patterns, as well as the toll on, and benefit to, the QGC system and the services they provide. The results of this study should be presented in the next QGC rate case.

Q. Do you agree with the proposed tariff modifications related to New Main and Services?

A. We are uncertain how these proposed modifications might affect our rights for allowance refunds under existing contracts. UAPA members have made significant capital investments, under the current QGC line extension policies, for pipeline extension projects to production facilities. Some UAPA members have entered into five-year line extension contracts for these projects and have several years remaining on the contract refund allowance obligations.

To alleviate concerns with the uncertainties of how this change affects the current five-year agreements, coupled with the previously mentioned IS commodity modification, we recommend that projects currently under five-year agreements qualify to be grandfathered under any new policy. In such a case, we are willing to give up our existing contractual refund allowance rights conditioned upon a refund of QGC internal costs charged for any applicable projects. We recommend the Commission establish a grandfather period for any project that has a currently effective contract in place and order refunds of QGC internal costs charged to these projects. This would potentially simplify and streamline the policy, reduce QGC costs associated with tracking and refunding allowances, and assure compliance with keeping the long-standing policy of sharing incremental costs 50-50. Under such conditions, we believe the requested QGC modifications to its existing policy would be fair and reasonable.

Q. Please summarize your primary conclusions and recommendations concerning Questar's proposed rate adjustment.

A. A drastic change in commodity cost methodology, in addition to a DNG revenue increase and a change in investment policies for infrastructure, not only places a disproportionate burden on our industry and others, it also causes long-term negative impacts to our neighborhoods, our communities, and our state where a burgeoning population demands greater investment in safe and reliable infrastructure. Any potential increase here, does not go unfelt elsewhere.

Under the guiding principles of fairness and gradualism, we respectfully request the Commission give IS class customers, like UAPA, and QGC time to prepare for and make such changes the right way. Not once, prior to this filing, was our industry or IS class customers consulted on how QGC's proposed changes would affect the way IS class customers do business and plan for the future. We know we must pay our share of the costs we cause the system to incur on our behalf. However, a DNG revenue increase, a change to commodity cost methodology, and an overhaul to investment policies in infrastructure, when examined as a whole, represent significant and unfair changes to our industry when there was no prior notification, consultation, or opportunity to prepare and account for such change. Therefore, we request the Commission stay the change in methodology, allow the previously agreed-upon task group to examine and vet such changes with the goal to present rate classes which more readily reflect unique industry profiles and their benefits to the system, and to stipulate with QGC as to the aforementioned conditions regarding the New Main and Services policy as proposed by UAPA.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.