

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE)
APPLICATION OF QUESTAR GAS) DOCKET NO. 02-057-02
COMPANY FOR APPROVAL OF AN)
INCREASE IN RATES AND CHARGES)

**DIRECT TESTIMONY OF
DARRELL S. HANSON**

FOR THE
DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

AUGUST 30, 2002

QUESTAR GAS COMPANY
DOCKET NO. 02-057-02
TESTIMONY OF DARRELL S. HANSON
AUGUST 30, 2002

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Darrell S. Hanson, Heber M. Wells Building, 160 East 300 South, Salt Lake City, Utah.

Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A I am employed by the State of Utah, Department of Commerce, Division of Public Utilities (DPU or Division) as a Technical Consultant in the Energy Section.

Q WHAT ARE YOUR QUALIFICATIONS TO TESTIFY IN THIS PROCEEDING?

A My qualifications are listed in Exhibit No. DPU 7.1 attached to this testimony.

Q WHAT ISSUES WILL YOU BE ADDRESSING IN TESTIMONY IN THIS CASE?

A I will respond to the prepared direct testimony of Questar Gas Company

(QGC or the Company) witness Barrie L. McKay. I will respond to his proposals to (1) change the contributions made when new premises are added to the system, (2) increase the \$5.00 customer charge to \$6.00, and (3) change the name of the customer charge to be called a “Basic Service Fee.” I will also make two proposals related to cost of service allocations.

Increased Charges for New Premises and Increased Customer Charge.

Q WHAT IS YOUR RESPONSE TO THE PROPOSAL OF QGC TO INCREASE THE CONTRIBUTIONS MADE BY CUSTOMERS WHERE A NEW PREMISES IS BEING ADDED TO THE SYSTEM?

A I agree with the proposal of QGC. One of the major factors causing the Company to apply for this rate increase is the impact of adding these new customers. Historically, new customers on average have been subsidized by existing customers and this will continue to happen. The magnitude of the current subsidization and what it would be under the QGC proposed change is illustrated on Exhibit QGC 5.2, page 1 of 4. Under the QGC proposal the amount of subsidy will be smaller and more in line with past practices, especially when the longer time to recover the investment because of declining usage per customer is considered.

Eliminating the “New Premises Fee” and having the total amount paid up

front as part of reduced free allowances for main extensions and service lines also makes sense. It would allow, in many instances, the fees for main extensions and service lines to be paid for by the builder, included in the cost of the house or building, and paid for over time by the customer in the customer's mortgage payment.

The proposed accounting treatment of using the payments from main and line extension fees to offset rate base instead of including the payments in revenue is also a positive change. One of the effects of this change is that it increases rates now, but over time will dampen the increase in rate base as new customers are added. This will help reduce the need for rate increases during periods of high customer growth like QGC has been experiencing. It is also logical that payments made for plant should be used to reduce rate base instead of flowing to revenues.

**Q COULD YOU EXPLAIN WHY THIS CHANGE HAS THE EFFECT OF
INCREASING RATES NOW?**

A In past cases the main and extension line fees were recorded as part of contribution in aid to construction (CIAC) and considered as revenues in determining rates. In its application in this case, QGC has reduced CIAC by \$4,448,148¹ to incorporate this proposed change. This adjustment is made in the

¹ See Exhibit QGC 5.6, line 15.

rate design portion of the Company calculations. It increases rates by \$4.4 million although it is not included in the \$23,017,000 annualized rate increase amount specified in the application.

Q WHAT IS YOUR POSITION ON THE COMPANY'S PROPOSAL TO INCREASE THE CUSTOMER CHARGE TO \$6.00?

A I support the proposed change. It is consistent with the methodology originally developed by the Division. The Division's position has been that the customer charge should be based on the costs that are caused by each customer each month. This includes the return and related costs on the minimum amount of plant necessary to serve a customer. Costs have gone up over time and justify an increase. The calculations of the customer charge by QGC, as included in Exhibit QGC 5.8, appear to meet the DPU criteria.

The Company has proposed changing the name of the customer charge to "Basic Service Fee." I have no problem with that proposed change.

Q DO YOU HAVE ANY COMMENTS ON THE BASIC SERVICE FEES FOR THE OTHER METER CLASSES?

A The calculations are consistent with past methodology. The only comment that I have is that the final rates should be adjusted to incorporate the return on rate base and associated taxes from the final order in this case.

Cost Allocations

**Q WHAT IS YOUR RECOMMENDATION AS TO HOW COSTS SHOULD
BE ALLOCATED IN THIS CASE?**

My recommendation is to allocate the CO2 Removal Plant costs on a modified commodity basis instead of the method proposed by QGC. In the last general rate case I proposed that the costs associated with the CO2 Removal Plant be allocated over all customers on a commodity basis. I still believe that allocating those cost, on a commodity basis would be the appropriate allocation with one modification associated with the volumes used for the FT-1 Class.

QGC has proposed continuing the allocation that is presently in effect. That allocation was the result of negotiations in the last general rate case where several of the parties entered into a stipulation. There is no principle behind the allocation except that it is the result of compromise.

**Q WHY WOULD VOLUMES BE THE APPROPRIATE ALLOCATION TO
USE IN ALLOCATING THE CO2 REMOVAL COSTS IN THIS
DOCKET?**

A A major reason for the plant being needed is the open access policy of the Federal Energy Regulatory Commission (FERC). Questar Pipeline Company

(QPC), which is a FERC regulated pipeline, is required to take the gas as long as it has capacity and the gas meets the quality specifications of the pipeline. QGC has maintained that this would be the FERC position even if it made the operation of appliances down stream unsafe. A major goal of open access is lower wellhead prices through a competitive, deregulated market. Since all customer classes benefit from lower wellhead costs on a commodity basis it would be reasonable to assign costs that are a result of the FERC open access policy on a commodity basis. Actually, those rate classes that my proposal would shift costs to would benefit more because only a little more than half of QGC's gas supplies are affected by wellhead prices. A significant portion of QGC's gas supplies is its own production that is priced at cost of service.

Another significant contributor to the need for the CO2 Removal Plant is the location of the coal bed methane fields. Gas from these fields enters the pipeline just upstream of a QGC city gate. Had the field been located farther upstream where other gas sources with a higher BTU content could be mixed in before reaching a city gate there would be less, and possibly no, need for the processing. Another contributing factor is the magnitude of production that is coming from these coal bed methane fields. The Price area coal bed methane gas has become a very significant part of supplies delivered to QPC.

Q IS THERE ANY BENEFITS THAT QGC CUSTOMERS RECEIVE FROM

**HAVING THIS LARGE GAS SOURCE SO CLOSE TO THE QGC
SERVICE TERRITORY?**

A Yes. I asked that question to QGC in a data request. The response to that data request is attached as Exhibit No. DPU 7.2. Such a significant source that is not dually connected to another pipeline helps keep wellhead prices lower for gas supplies from fields on the QPC pipeline facilities. Producers in fields connected to more than one pipeline can often demand the higher price associated with the highest price market available on any of the connected pipelines. Al Walker, the preparer of the response, made an estimate of that benefit to be 13 cents per Dth. This is based on a fairly short period of time, December 2001 to March 2002, so it has to be considered a rough estimate, but logically one would expect some benefit. All customers, including QGC's transportation customers will benefit from this large source of gas located where it is. This adds to the argument of having all customers share in the costs caused by this situation. The cost that I have allocated on a commodity basis is 3.9 cents per Dth.

**Q EARLIER YOU INDICATED THAT YOU WOULD ALLOCATE THE
CO2 REMOVAL COSTS ON A MODIFIED COMMODITY BASIS, IN
WHAT WAY IS YOUR BASIS MODIFIED?**

A The FT-1 rate is designed for potential by-pass customers. It is not based on cost of service. In this docket QGC has proposed increasing this rate class by

the overall percentage increase in rates. I propose adding to the QGC proposal for The FT-1 rate an allocation of the CO2 plant costs based on the volumes of the first two FT-1 blocks only, and increasing only those blocks in the rate design. This should minimize the impact on the larger customers which have the greater potential to bypass. Assigning too much additional cost to the large FT-1 customers could encourage them to build a bypass line directly to an interstate pipeline such as Kern River or QPC. If that were to happen, QGC and eventually all of the its customers would lose the benefit of that customer's contribution towards covering the cost of service.

Q YOU INDICATED THAT YOU WOULD BE MAKING TWO PROPOSALS RELATED TO COST OF SERVICE ALLOCATIONS. WHAT IS YOUR SECOND PROPOSAL?

A I agree with the QGC proposal of moving customer classes only one third of the way to cost of service because of the impact that going to a full cost of service allocation would have on certain classes. This is consistent with the principle of gradualism that the DPU has supported in the past.

Q DO YOU HAVE EXHIBITS THAT SHOW THE IMPACT OF YOUR PROPOSALS?

A Yes. Exhibit No. DPU 7.3 illustrates the development of the cost of

2 service allocation. This is basically a modification of the bottom part of QGC
3 Exhibit 5.5, page 2 of 4. Since I allocate some costs to the items on lines 13
4 through 17 of the QGC exhibit, I have added the dollars from these lines back to
5 the total revenue requirement before assigning costs. The CO2 removal costs are
6 then allocated across all rate categories that have volumes as I have discussed
above including the modification for the FT-1 rate.

Exhibit No. DPU 7.4 is comparable to Exhibit QGC 5.7 and shows the impact on each rate category of (1) going to full cost of service, and (2) going one third of the way to cost of service.

Column (e) of Exhibit No. DPU 7.4 is the most meaningful when compared with the QGC proposal since we are both proposing to go one third of the way to cost of service. Exhibit No. DPU 7.5 compares this column with the corresponding column from QGC 5.7. I have also added a third column that provides the numbers for the DPU proposal incorporating the DPU adjustments to the revenue requirement.

Q DOES THIS CONCLUDE YOUR PREFILED TESTIMONY?

A Yes.