

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF)
THE APPLICATION OF) **Docket No. 02-057-02**
QUESTAR GAS COMPANY)
FOR AN INCREASE IN) **Testimony of Utah Ratepayers Alliance**
RATES AND CHARGES)

DIRECT TESTIMONY OF

ELIZABETH A. WOLF
JEFFREY V. FOX
and
Dr. CHARLES E. JOHNSON

ON BEHALF OF

SALT LAKE COMMUNITY ACTION PROGRAM,
CROSSROADS URBAN CENTER, AND
UTAH LEGISLATIVE WATCH,
COLLECTIVELY
UTAH RATEPAYERS ALLIANCE

August 30, 2002

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application)
of Questar Gas Company for an) Docket No. 02-057-02
Increase in Rates and Charges)

I. QUALIFICATIONS

1 Q. PLEASE STATE YOUR NAMES.

2

3 A. Our names are Elizabeth A. Wolf, Jeffrey V. Fox, and Charles E. Johnson

4

5 Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY IN THIS
6 PROCEEDING?

7

8 A. We are testifying in Docket No. 02-057-02 before the Utah Public Service Commission
9 (PSC or The Commission) on behalf of the Salt Lake Community Action Program (SLCAP),
10 Crossroads Urban Center (Crossroads), and Utah Legislative Watch, collectively know as Utah
11 Ratepayers Alliance.

12

13 Q. MS. WOLF, PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

14

15 A. I hold a B.A. in American Studies from the University of Michigan. I also have taken a
16 substantial number of graduate courses in the School of Social Work at the University of Utah.

17

18 Q. MS. WOLF, BY WHOM ARE YOU CURRENTLY EMPLOYED?

19

1 A. I am currently employed by Salt Lake Community Action Program as an advocate for
2 low-income people on utility issues. Salt Lake Community Action Program is a nonprofit
3 agency that works to help low-income families seek self-sufficiency through service delivery
4 and advocacy. While I have worked for Salt Lake Community Action Program since January
5 1997, I have been involved in working with low-income people and issues for nearly thirty
6 years in a variety of activities. My business address is Salt Lake Community Action Program,
7 764 South 200 West, Salt Lake City, Utah.

8
9 Q. MS. WOLF, DO YOU HAVE ANY OTHER RELEVANT WORK EXPERIENCE?

10
11 A. Yes. I was employed previously for 16 years as Executive Director of Utah Common
12 Cause, a nonprofit, nonpartisan citizens' lobbying group working for more open and
13 accountable government. During that time, I worked with other consumer groups on utility
14 issues, including telephone deregulation and support for adequate consumer representation in
15 utility regulatory proceedings. In my years with Utah Common Cause, I worked extensively
16 with the legislature and provided testimony on numerous occasions. In addition, I have been
17 employed in research capacities most of my adult life, including historical research, paralegal
18 work and as a research analyst for a congressional committee.

19
20 Q. MS. WOLF, HAVE YOU TESTIFIED PREVIOUSLY IN REGULATORY
21 PROCEEDINGS?

22
23 A. Yes, I have testified as an expert witness in UPSC Dockets No. 97-035-01 and 99-035-
24 10, previous PacifiCorp rate cases, and in UPSC Docket No. 99-057-20, the last Questar rate
25 case.

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27 Q. MR. FOX, PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

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A. I have a B.S. degree in Psychology from the University of Utah with an additional 50 hours in the College of Business.

Q. MR. FOX, BY WHOM ARE YOU CURRENTLY EMPLOYED?

A. I provide contract services for Crossroads Urban Center in the position of utility specialist. My business address is Crossroads Urban Center, 347 South 400 East, Salt Lake City, Utah.

Q. MR. FOX, DO YOU HAVE ANY OTHER RELEVANT WORK EXPERIENCE?

A. I was the Director of Crossroads Urban Center for ten years, Director of Utahns Against Hunger for three years and a State Representative in the Utah Legislature for six years. I have sponsored and cosponsored utility-related legislation as a State Legislator and worked on utility issues while I was employed at Crossroads Urban Center and Utahns Against Hunger. Crossroads Urban Center, which I represent before these proceedings, is a non-profit, grassroots organization which assists and organizes low income, disabled, and minority Utahns to meet their basic survival needs and to address essential issues affecting their quality of life. I have more than 20 years of experience working with low income people and over 13 years of experience working on utility issues.

Q. MR. FOX, HAVE YOU TESTIFIED PREVIOUSLY IN REGULATORY PROCEEDINGS?

A. Yes, I have testified as an expert witness in UPSC Dockets No. 97-035-01 and 99-035-10, previous PacifiCorp rate cases and in UPSC Docket No. 99-057-20, the last Questar rate case.

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Q. DR. JOHNSON, PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

A. I have a B.S. degree in chemistry/physics from the University of Utah, an M.S. in Mathematics from the University of Wisconsin in Madison and a Ph.D. in Mathematics from Ohio State University.

Q. DR. JOHNSON, BY WHOM ARE YOU CURRENTLY EMPLOYED?

A. I am a self-employed private consultant on matters involving public utilities. I have provided consulting services to parties involved in utility rate cases, ranging from State Attorneys General and Public Service Commission staff to consumers such as low-income groups and large industrial consumers for 25 years.

Q. DR. JOHNSON, HAVE YOU TESTIFIED PREVIOUSLY IN REGULATORY PROCEEDINGS?

A. Yes, I have testified as an expert in scores of proceedings around the country before nearly thirty different jurisdiction and before several legislative bodies on a variety of issues involving electric, natural gas, telecommunications and insurance companies. The topics I have covered have included rate designs, depreciation studies, financial issues, deregulation and numerous other matters. I have testified before the Utah Public Service Commission several times.

1 **II. PURPOSE AND SUMMARY**

2

3 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

4

5 A. The purpose of our testimony is to describe the success of the low-income
6 weatherization program that was implemented in Docket No. 99-057-20 for Questar Gas
7 Company (QGC or the Company), to show the need for expansion of this program and to
8 request that the Commission increase funding of the low-income weatherization program. This
9 program is operated by the Utah Department of Community and Economic Development
10 (DCED) and in the one and one-half years it has been operational, has weatherized 897 low-
11 income homes. Michael Johnson, Director of the Weatherization Program for the Division of
12 Community Development will provide details of the activities and their consequences during
13 the brief period that the program has been in effect. We propose that this Commission allow
14 Questar to increase the amount currently included in rates from \$250,000 to \$500,000 to fund a
15 greater level of cost-effective weatherization. These efforts will enable more low-income
16 customers improve the energy efficiency of their residences.

17

18 We will also address the reduction in the level of service provided to customers by
19 QGC. In particular we will discuss the impact this has had on low-income customers.
20 However, our concerns about the reduction in services extend beyond its impact on low-income
21 customers and extend to future actions that may be taken by the Company and the Commission.
22 We also have some objections to the Test Year proposal of QGC. We will also address several
23 issues related to rate design, opposing the Company's proposal to increase the customer charge
24 and proposing a flattening of the declining block rate structure for the CS1/CSS rate structure.

25

26 First, in this Section II, we start with a discussion of our concerns about the reduction in
27 the level of service provided to QGC customers. Then, we provide background information on

1 the need for low-income assistance and the value of the activities of the Weatherization
2 Program. We will also address the increased need for programs such as this in times of
3 economic difficulty. In Section III, we will address our understanding of the Commission's
4 Order in Docket No. 99-057-20 as it applies to the Weatherization Program. We will also
5 review the criteria established for judging the merits of an electric lifeline rate proposal
6 identified by the Commission in its Order in the previous PacifiCorp case, Docket No. 97-035-
7 10. In Section IV, we will comment on the test year proposal of Questar. Finally, in Section V,
8 we will present our proposals for modification of the rate designs of Questar.

9
10 Customer Service

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12 Q. PLEASE DESCRIBE SOME OF THE CUTBACKS IN SERVICE AND THE EFFECT
13 THAT THEY HAVE ON CUSTOMERS, PARTICULARLY LOW-INCOME
14 CUSTOMERS.

15
16 A. As described in its testimony, Questar Gas Company reduced customer service in a
17 number of areas. Several offices were closed, eliminating the ability of customers to come in
18 and pay their bills in person. We have found that in some areas of the state, customers are
19 concerned about having to put money into a drop box and wondering whether that money will
20 get to the Company in a timely manner or at all. In addition, closing those offices had the
21 effect of eliminating a customer's ability to discuss billing and payment issues with Questar
22 customer service representatives in person as many had done in the past. While some
23 customers throughout the state receive help from Home Energy Assistance Target (HEAT)
24 program workers who intervene with Questar in restoring gas service or in averting a gas shut
25 off, undoubtedly there are many others who have fallen through the cracks and been unable to
26 deal with their issues over the phone.

1 In addition, Questar discontinued its long-standing practice of lighting pilot lights and
2 checking gas appliances. While the Company cites in testimony of Mr. Jibson [page 3, lines
3 21-25] that a minority of customers used the service each year, he testified that over the course
4 of years, the number of customers using these services was substantial. Often these services
5 related to customers' concerns about the safety of a gas furnace or appliance. Many low-
6 income customers do not have the money to hire a heating contractor to come to their home to
7 light a pilot light or to check an appliance.

8
9 This problem is further complicated by the fact that if Questar came to light the pilot or
10 check the appliance, the Company had nothing to gain financially from stating that there was a
11 problem with a furnace or appliance, since it does not engage in that kind of work.
12 Unfortunately, people do not have the same confidence in all heating contractors, because there
13 are too many cases where a customer is told he needs an expensive repair or replacement that
14 he cannot afford and in some cases does not actually need. In some of these cases, people then
15 resort to other unsafe practices such as heating with a gas stove if the furnace is thought to be
16 defective.

17
18 Q. IS QUESTAR DOING ANYTHING TO HELP LOW-INCOME CUSTOMERS?

19
20 A. Yes. We appreciate the fact that Questar met with low-income groups and
21 representatives from the Committee of Consumer Services following the cutbacks to see what
22 could be done about this problem. The Company agreed to help those it could determine were
23 low-income or those low-income people specifically referred by organizations that had
24 knowledge that a household had a limited income. The low-income groups expressed concern
25 about the health and safety issues of households which could not afford to call a contractor and
26 who might be put at risk by not having an operating furnace or an improperly lighted one.

27

1 One of the problems is that when Questar discontinued these services, the Company
2 also launched a large advertising campaign which let customers know that these services were
3 no longer being provided. While Questar has been willing to help a limited number of “special
4 needs” customers, many customers do not even consider calling Questar or another group for
5 help precisely because they read and/or listened to the ads and perceived that no help was
6 available.

7
8 Q. WHAT IS THE OVERALL IMPACT OF THESE CUTBACKS?

9
10 A. It is fair to say that customers’ attitudes over the past few years have declined in terms
11 of customer satisfaction. One has only to examine QGC Exhibit 2.3 to see that the decline that
12 started 5-7 years ago has continued through the most recent data the Company has provided.
13 Many customers used to view the gas company as particularly helpful, since customer service
14 representatives responded to customer need by going to homes to light pilot lights, check
15 appliances and check on other health and safety measures. Lower levels of customer service
16 combined with higher rates and confusion regarding the Green Sticker program have given
17 customers a decreased level of satisfaction with Questar.

18
19 Q. WHAT ARE YOUR ADDITIONAL CONCERNS REGARDING CHANGES IN
20 QUESTAR GAS COMPANY’S CUSTOMER SERVICE?

21
22 A. We are primarily concerned about possible service levels in the future. It is our position
23 that QGC was provided a revenue level in the last rate case to continue providing the level of
24 service that it provided during that historical test year. A reduction in service following that
25 Commission Order seems to us to be an instance of the Company breaking the regulatory
26 compact. The revenue award in that case was predicated on the basis of a specific utility
27 service that was being provided, but that was subsequently not provided. In addition to the

1 reduction in service provided to customers, Questar has reduced the BTU content of its gas,
2 forcing customers to incur costs and/or inconvenience in having adjustments made to their gas
3 appliances and furnaces. These actions are terrible precedents for utility regulation in Utah,
4 leaving open the possibility that continued degradation in quality of service will occur,
5 imposing further cost and inconvenience on QGC customers. Increased degradation in quality
6 of service may also begin to have health and safety effects.

7
8 Q. IS ANYTHING UNDERWAY TO ADDRESS QUESTAR GAS COMPANY'S
9 LEVEL OF CUSTOMER SERVICE?

10
11 A. Yes. Several parties in this rate case have been meeting with representatives of Questar
12 to look at quality of service issues. The group is not looking at changing the services that the
13 Company currently provides. Rather it is trying to determine a way to measure the quality of
14 service at the level of service that the Company provides today.

15
16 Q. IS THERE AGREEMENT ON MEASURING THE QUALITY OF SERVICE AT
17 THIS TIME?

18
19 A. No. Questar has drafted a stipulation, but it has not yet been discussed by the parties.

20
21 Q. DO YOU CURRENTLY HAVE A POSITION ON THE PROPOSAL?

22
23 A. No. We will reserve judgement on the outcome since it is still a work in progress and
24 intend to address this issue at the appropriate time. We do have concerns that some aspects of
25 the proposed measurement of quality of service may remain confidential. We believe that it is
26 important for customers to know what services they should expect from the Company as well
27 as to know that they are receiving a reasonable quality of service on those services that are

1 provided. If Questar wants to strive beyond a basic service level to provide its customers with
2 a higher level of service quality, we would encourage the Company to do so.
3

4 To the extent that the Commission issues an order establishing measures of the quality
5 of service of Questar and requires the reporting of these measures, such information should be
6 publicly available. If there are internal management tools that Questar is willing to share on a
7 confidential basis with Division personnel for other reasons, we have no objection. This may
8 require the segregation of information into separate categories.
9

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13 Need for Low-Income Assistance

14
15 Q. WHAT ARE THE REASONS THAT LOW-INCOME HOUSEHOLDS NEED
16 ASSISTANCE WITH WEATHERIZATION?
17

18 A. There are several reasons low-income households need assistance with weatherization
19 of their homes. These can be characterized as being:

- 20 \$ Health and Safety Issues,
21 \$ Current Cost Issues,
22 \$ Long-Term Cost Issues, and
23 \$ Conservation Issues.
24

25 Q. WHAT ARE THE HEALTH AND SAFETY ISSUES?
26

1 A. As we described above, QGC has discontinued much of the assistance it previously
2 provided customers in dealing with gas problems inside their homes. As a result, many
3 customers, particularly low-income ones, fear that if they call the Company for any gas-related
4 matter, their gas will be shut off and their service will be “red tagged,” preventing it from being
5 restored until the problems are corrected. Sometimes these problems might cost substantial
6 sums, which the household cannot afford. This program assists these households in correcting
7 problems that might otherwise lead to red-tagging. Absent the program, many of these
8 problems would not be corrected and some of those would lead to situations that could be
9 dangerous to the health or safety of the household.

10
11 Q. WHAT ARE THE CURRENT COST ISSUES?

12
13 A. Current cost issues are those that relate to the cost of energy that low-income
14 households must pay as a percentage of the household income, referred to as the energy burden.
15 The primary energy costs are electricity and heating fuel.

16
17 The Low-Income Task Force determined in 1999 that a family with the median Utah
18 income and average energy usage would have an energy burden of about three percent. More
19 current figures show that this has not changed. At the time of the Low-Income Task Force
20 Report, a family of three at the Federal poverty level and with average energy usage would
21 have had an energy burden of almost 12 percent and a typical low-income senior citizen or
22 disabled person receiving Supplemental Security Income (SSI) would have had an energy
23 burden as high as 21 percent. Currently these energy burdens are 10 percent for a family of
24 three at the Federal poverty level with average energy usage, and 22 percent for a typical low-
25 income senior citizen or disabled person receiving SSI. Combined with high housing costs,
26 many of Utah’s low-income families spend over half of their income on housing and energy,

1 leaving little for food, transportation, clothing, medicine, and other items necessary for living
2 and working.
3

4 Natural gas is a primary heating fuel for most households in Utah and many low-income
5 households inhabit houses that are not energy-efficient. The Department of Community and
6 Economic Development (DCED) has weatherized approximately 45,000 homes over the 27
7 year history of the program and estimates that there are an additional 50,000 homes in need of
8 weatherization in Utah. At its inception the program was only able to perform a limited
9 number of measures, both by program constraints and technological limitations. Currently, the
10 program measures are much more intensive in each house and the Questar weatherization funds
11 allow agencies to implement these measures owing to the constraints of other funding sources.
12 Utah statewide estimates are that homes that have been weatherized save \$250 to \$300 per year
13 in energy costs and national data calculates non-energy benefits for these homes at more than
14 \$976 over the life of the weatherization actions. By providing a greater level of funding for the
15 weatherization program, more families can be reached by this program.
16

17 Gas bills fluctuate greatly throughout the year and large bills during the heating season
18 are much more difficult for low-income households to pay. In addition, in gas heated homes,
19 there is much that can be done that is cost effective to reduce a household's energy burden.
20 The cost is generally still deemed to be too much for low-income households to bear which is
21 why the low-income home weatherization program exists in the first place.
22

23 The primary current benefit of energy efficiency measures in the weatherization
24 program is to reduce energy usage, thereby reducing a household's energy burden. By
25 reducing the monthly bill, it makes it more likely that the customer will pay their bill.
26 Additionally, energy efficiency measures improve the comfort of a dwelling by eliminating

1 drafts and by allowing the household to afford to keep the temperature at a more comfortable
2 level.

3
4 Q. HOW CAN WE BE CERTAIN THAT ACTIONS UNDER THIS PROPOSAL WILL
5 BE COST EFFECTIVE?

6
7 A. As Mr. Michael Johnson states in his testimony, DCED carefully analyzes a home prior
8 to determining what measures will be addressed and only those that are determined to be cost
9 effective are undertaken. From the perspective of those ratepayers paying for the program, if
10 people are able to pay their bills, there will be benefits to non-participants such as reduced
11 arrearages, reduced collection costs, reduced costs for disconnections and reconnections, etc.

12 Q. WHAT ARE THE LONG-TERM COST ISSUES?

13
14 A. Expenditures on home weatherization last for a number of years, some as long as the
15 remaining life of the dwelling. Thus, they improve the housing stock in a community.

16 Money saved by low-income households from weatherization and energy efficiency
17 measures is spent in the community. In addition, the weatherization funds themselves are spent
18 in the community for labor and to buy materials and supplies. The Department of Energy
19 (DOE) estimates that more than five jobs are created by each \$100,000 of investment in
20 weatherization. DOE estimates conservatively an economic multiplier of three from that same
21 investment. Thus, the multiplier effect produces benefits much greater than the direct cost of
22 the program.

23 Q. WHAT ARE THE CONSERVATION ISSUES?

24
25 A. In addition to using less energy and thus reducing bills for low-income customers, the
26 Questar weatherization program is an energy conservation program that benefits all residents of
27 Utah from an environmental standpoint. The Division of Public Utilities Report to the Public

1 Service Commission of April 15, 2002, cites benefits of the program, stating: “The program
2 saved 20,123 Dth annually. This is enough gas to serve 192 residences.” While one could
3 reasonably argue that this is a minor contribution to Demand Side Management (DSM), the
4 resulting environmental benefits from this program are still significant. The DPU report
5 quantifies those benefits in its conclusions regarding reduced air pollutants:

6 “Reduced air pollutants from not burning 20, 123 Dth of natural gas

7 Carbon Dioxide	2,367,412 lbs
8 Nitrogen Oxides	1,854 lbs
9 Carbon Monoxide	789 lbs
10 Particulate Matter (PM 10 or less)	150 lbs
11 Volatile Organic Compounds	108 lbs
12 (Footnoted as: i.e., formaldehyde, benzene)”	

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15 Increased Need

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17 Q. IS THERE AN INCREASED NEED FOR THIS PROGRAM?

18
19 A. Yes. As we have seen over the past few years, utility rates have increased in general
20 and gas rates in particular have been extremely volatile. In the winter of 2000-2001, gas rates
21 skyrocketed approximately 50% in a series of cases over a span of about six months. At their
22 heights, high bills caused by a combination of high gas prices and colder temperatures caused
23 extreme hardship among not just low-income households, but also among many that are not
24 considered low-income. While purchased gas prices have decreased more recently, they are still
25 13% higher than they were prior to the last rate case. The rates proposed in this docket
26 constitute yet an additional increase.

1 There is evidence of the difficulty in utility bill payment in the statistics of the HEAT
2 Program. Even during a time of unequaled economic prosperity and low unemployment, we
3 saw a large increase in the number of households applying for utility assistance. For example,
4 when bills were at their highest during the winter of 2000 - 2001, the HEAT Program assisted
5 31,291 households in Utah which represents a 24% increase from the preceding heating season
6 when 25,166 households were served by the program. Even with lower rates last winter,
7 instead of a drop in the number of households seeking assistance, the number increased slightly
8 to 32, 086 households.
9

10 Q. ARE THERE OTHER ISSUES THAT ARE A FACTOR IN THIS TREND?
11

12 A. Yes. We have recently seen a dramatic downturn in the economy in Utah as we have
13 nationally. According to the Utah Department of Workforce Services, Utah's unemployment
14 rate for July registered 5.1 percent, continuing a year-long trend of the rate hovering in the low
15 to mid 5 percent range. The July number is an increase from June's 4.7 percent, reflecting the
16 persistent difficulty in sustaining employment in the current labor market. Approximately
17 58,900 Utahns were unemployed in July 2002, a 22.9 percent increase from the 47,912 in July
18 2001, when the unemployment rate was 4.3 percent. Utah saw its lowest unemployment rate of
19 3.1 percent in 1997 when approximately 32,300 Utahns were unemployed.
20

21 It is commonly understood that in weakening economies, the last to be hired are the first
22 to be fired. Thus it is likely that many low-income people, including many who had previously
23 received benefits from Temporary Assistance to Needy Families (TANF), found jobs during
24 the years of high employment only to lose them in this economic downturn. Many of those
25 who were more recently employed don't have the education level and haven't had the
26 opportunity to have enough time to raise their job level to a place where they have become
27 indispensable employees. As Utah Issues reports in its Winter 2002 *Directions* newsletter:

1 “Caught in the middle are low-income working Utahns who are facing job loss, mounting
2 expenses and the prospect that critical housing, health and work support programs will be less
3 able to help them through their temporary crisis.” That was before the series of budget cuts
4 affecting various safety net programs in the many budget-cutting sessions of the Utah
5 Legislature since January.

6
7 Even during the recent good economic times, those on the lower paid end of the
8 workforce did not necessarily see the same prosperity that many in higher income brackets
9 experienced. A July 2002 Research Report from the Utah Foundation noted that for most
10 people who had received welfare benefits in Utah, “replacing welfare benefits with full time
11 work will not lift them out of poverty.” Another study released in 2001 through the Center for
12 Public Policy and Administration at the University of Utah examined Utah charitable
13 organizations and their ability to assist Utah’s low-income residents. One of its findings was:
14 “Most of the applicants for assistance from charitable organizations are working. They seek
15 alternatives to government assistance because they earn too much to qualify for government
16 benefits, yet their wages are inadequate to pay the increasing cost of living in Utah.”

17
18 We see evidence of this in statistics depicting the prevalence of hunger in Utah. While
19 participation in government programs such as food stamps and WIC (Women, Infants and
20 Children) has increased over the past year, charitable organizations have seen a dramatic rise in
21 usage in recent years. Utah Emergency Food networks have experienced a consistent increase
22 in the number of households needing assistance from 1995 to 2001. In that time period,
23 household usage has more than doubled with utilization by households outside of Salt Lake
24 County actually tripling. In the past year, food orders at Salt Lake Community Action
25 Program’s Neighborhood Centers have increased 15 percent, while Crossroads Urban Center
26 has seen an increase in households using their food pantries of more than 30 percent.

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4 **III. PSC CRITERIA FOR LOW-INCOME ASSISTANCE PROGRAMS**
5

6 Q. DID THE COMMISSION IDENTIFY CRITERIA FOR JUDGING A
7 WEATHERIZATION PROGRAM IN ORDERING QUESTAR TO DO SO IN UPSC
8 DOCKET NO. 99-057-20?
9

10 A. No, not specifically. However, in an earlier PacifiCorp case, UPSC Docket No. 97-035-
11 10, the Commission found that it had the authority to implement a lifeline rate and established
12 four criteria that it deemed appropriate for judging the merits of a lifeline proposal. We
13 presented those criteria in UPSC Docket No 99-057-20 and showed why they applied to the
14 proposed low-income weatherization program. For reference, we present the criteria here.

- 15 1. The need is real and is not being met by direct-payments programs.
16 2. The program is successfully targeted and would not overly burden other customers.
17 3. The benefits offset negative impacts on objectives.
18 4. The program is easy and inexpensive to administer.
19

20 With regard to these criteria, the Commission concluded in Docket No. 97-035-10 that
21 the record showed direct assistance was inadequate to meet the need and in Docket No 99-057-
22 20 concluded that the four criteria were sufficiently met to approve the Low-Income
23 Weatherization Program. In the latter docket, the Commission stated:

24 We conclude that ratepayer funding of the proposed weatherization program is in the
25 public interest and will allow recovery of the expenditure through general rates. In
26 support of this conclusion, we find that the program meets the criteria set forth in the
27 Commission's May 24, 2000 Order approving a lifeline rate in Docket No. 99-035-10.
28 In addition, we find that this program will promote cost-effective energy efficiency
29 measures that will conserve resources and provide environmental benefits. The

1 program will minimize administrative costs while providing benefits to participants and
2 nonparticipants. The program also addresses a safety issue that may otherwise be
3 difficult to alleviate. For these reasons, we approve the funding of \$250,000 for
4 weatherization to be administered by DCED. [Order, page 43]
5

6 Because the Commission has previously found that the program meets its criteria, it is
7 only necessary now to show that the need has increased since the program was first approved,
8 that the increase cost for the program will assist in meeting this need, and that this increased
9 level will not overly burden other customers.
10

11 Q. IS THE NEED FOR LOW-INCOME ASSISTANCE GREATER NOW THAN WHEN
12 THE LOW-INCOME WEATHERIZATION PROGRAM WAS IMPLEMENTED?
13

14 A. Yes. This was discussed in the previous section.
15

16 Q. WILL THE INCREASED COST OF THE PROGRAM ASSIST IN MEETING THIS
17 NEED?
18

19 A. Yes. Mr. Michael Johnson describes in his testimony how an increase in funding this
20 program will assist even more low-income customers.
21

22 Q. DOES THE INCREASED LEVEL OF FUNDING OVERLY BURDEN OTHER
23 CUSTOMERS?
24

25 A. No. Questar's proposed Utah jurisdictional revenue is \$221 million. The increased
26 level of funding is just over 0.05 percent of the total revenue. If all of the proposed revenue
27 increase were recovered from residential customers, it would add about \$0.03 per month to
28 their bill. If it is spread to all customers, the monthly increase would be less than \$0.03 for
each customer.

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Q. HOW SHOULD THE COST BE RECOVERED FROM OTHER CUSTOMERS?

A. We propose that the additional \$250,000 be included in Questar’s base rates and allocated to rate classes using allocator #9. This is the method that was used for the initial \$250,000 and there is no reason to change the method of allocating the costs.

Q. SHOULDN’T THE COST BE RECOVERED ONLY FROM RESIDENTIAL CUSTOMERS?

A. Our answer is no; it is not appropriate to recover the cost only from the residential class. We discussed this in our testimony in Docket No. 99-037-20 and will not repeat that discussion here. The Commission approved our proposed method and no one has presented any reason to change the method.

1 **IV. TEST YEAR**

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3 Q WHAT TEST YEAR HAS QUESTAR PROPOSED?

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5 A. Questar has proposed a test year of the 12 months ending January 1, 2003. The
6 proposed test year is a departure from the usual practice of the Utah Commission of using a
7 purely historical test year. Questar asserts that there is justification for using a more forward-
8 looking test year that has been past practice.

9

10 Q. DO YOU AGREE?

11

12 A. We agree in part, but feel that Questar has exceeded the bounds of reasonableness in its
13 request. We believe that the regulatory compact between Questar and its customers requires
14 that not only must Questar provide a reasonable level of service at a price that is fair and of a
15 quality that is at a consistently acceptable level, but customers must not expect that the
16 company can accomplish this without adequate revenues. Some of the arguments that Questar
17 has presented against use of a purely historical test year are compelling and we accept them.
18 However, by carrying their adjustments so far into the future, we believe that they have gone
19 beyond what can be accepted by the Commission. This results in their revenue request being
20 excessive and the Commission should not grant them the full amount requested.

21

22 The Questar arguments that are most compelling are 1) that the gas industry is no longer
23 a declining cost industry and 2) that the consumption per customer has been declining for some
24 years and may well decline in the future. This does not justify extending the test year to
25 January 1, 2003 and it does not justify using end of period numbers rather than average year
26 values, but some adjustment from purely historical test year data may be appropriate. This

1 does not mean that we accept the Company's forecasts or their forecast methodologies; only
2 that there may be some justification for use of data other than purely historical data.
3

1 **IV. RATE DESIGN**

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3 Q WHICH ASPECTS OF THE RATE DESIGN WILL YOU ADDRESS?

4

5 A. We will address the following aspects of the Questar rate design.

6 \$ 1. The Customer Charge and

7 \$ 2. The Declining Block Charge.

8

9 Customer Charge

10

11 Q. HAS QUESTAR PROPOSED AN INCREASE IN THE CUSTOMER CHARGES?

12

13 A. Yes. Questar has proposed renaming the current customer charge as the “Basic Service
14 Fee” and increasing the charge to \$6.00 for GS-1 customers. Charges for customers with larger
15 meters are increased and renamed as well.

16

17 Q. WHY IS QUESTAR PROPOSING TO RENAME THE CHARGE?

18

19 A. Mr. McKay claims that the name is confusing and is the source of a great many
20 complaints. It is to be assumed that these complaints take the time of Questar personnel and
21 result in a cost imposition on the Company.

22

23 Q. IS THIS ADEQUATE JUSTIFICATION FOR CHANGING THE NAME?

24

25 A. It is not clear that the name change will eliminate or even reduce the number of
26 complaints about the fixed charge. However, if Questar wants to reduce the number of
27 complaints about this charge, it should not increase the charge to customers when it is already a

1 source of a sufficient number of complaints to warrant being brought to the attention of the
2 Commission. An increase in the charge, combined with renaming it is likely to lead to even
3 greater numbers of complaints that will cost Questar even more than the current level of
4 complaints. We recommend that the Commission reject the proposal to increase the fee.
5

6 Q. ARE THERE OTHER REASONS FOR OPPOSING THE INCREASE IN THE
7 CUSTOMER CHARGE (BASIC SERVICE FEE)?
8

9 A. Yes. There are two other reasons for the Commission to reject the proposed increase in
10 the customer charge.
11

12 First, the rate design for this rate schedule is just a two-part tariff -- the customer charge
13 and the volumetric charge -- with the volumetric charge having one declining block. We will
14 address the declining block issue later. Any revenue recovered through the customer charge
15 reduces the volumetric charge. A reduction in the volumetric charge leads to an increase in
16 usage. Questar should not propose and this Commission should not approve policies or
17 practices that encourage increased consumption of energy.
18

19 Second, an increase in the customer charge is disproportionately recovered from
20 customers with lower consumption. Based on information supplied by the Company, low-
21 income customers have lower usage than other customers. The result of increasing the
22 customer charge is that a greater percentage of the increase falls on low-income customers.
23 URA opposes increasing costs disproportionately to low-income customers and believe the
24 Commission should also oppose such action.
25

26 Q. WHAT ARE THE BENEFITS TO THE COMPANY OF A HIGHER CUSTOMER
27 CHARGE?

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A. Absent another recovery mechanism to balance the utility’s costs and revenues, utilities often prefer rate designs that recover most or all of their so-called “fixed” costs through the customer charge and to recover the “variable” costs through the volumetric charge. Mr. Allred has made this argument for justifying changes in the test year. Recovery of truly fixed costs through fixed charges provides the utility with a revenue stream that is comparable to its costs (as Mr. Allred observes) and gives the utility a certain level of revenue and profit stability, absent other factors. Under prices that recover a significant portion of the “fixed” costs through the volumetric charge and absent such an alternative recovery mechanism, the utility would greatly under recover its revenues during periods of below-expected sales and greatly over recover them during periods of above-expected sales. This sort of volatility in revenue and profits is detrimental to a company’s financial well-being. Many customers with large amounts of gas usage also support this type of rate design because it reduces the charges to them.

In the case of Questar, however, this argument does not fully apply. The adjustment that allows Questar to recover additional revenue to cover non-gas costs in the event sales are lower than forecast (and to return revenue if sales are higher) means that Questar does not face the possibility of revenue shortfalls due to warmer-than-normal winter weather. In that sense, its revenues will cover its fixed costs and it has the revenue stability that a sizeable fixed customer charge is frequently intended to provide. There may be some adverse effect to Questar due to the declining consumption per customer, but it is not of the magnitude that it would be absent this mechanism.

Q. ARE THERE OTHER ARGUMENTS THAT MIGHT SUPPORT THE USE OF A FIXED CUSTOMER CHARGE?

1 A. There is one other argument that is often used to justify imposition of relatively high
2 customer charges -- the customer equity argument. It is claimed by some analysts that
3 customers should pay the average cost of being served. Under such an argument, one divides
4 the total non-gas costs (for a class or category of customer) by the total number of such
5 customers and, since this is the average cost of serving a customer, then claims that each
6 customer should pay that amount as a fixed charge -- the customer charge -- but this is an

erroneous

7
8
9 Q. WHY IS THE FIXED/VARIABLE ALLOCATION METHOD AN ERRONEOUS
10 METHOD OF ASSIGNING COSTS FOR RATE DESIGN?
11

12 A. There are several reasons that the fixed/variable allocation method inappropriately
13 assigns costs. First, costs are not always clearly either fixed or variable. For example, the
14 commodity cost becomes largely fixed with take-or-pay contracts for gas, which is ordinarily
15 otherwise thought of as a variable cost. For Questar, the cost of cost-of-service-based gas from
16 Wexpro is not exactly a variable cost.
17

18 Second and more importantly, even if the separation of costs into a fixed set and a
19 variable set were unambiguous, that is not the correct basis for setting prices. One of the
20 functions of setting prices is to signal to the customer the cost of providing the customer with
21 the service or object being purchased. Setting the customer charge equal to the average non-
22 gas cost per customer and the price of gas equal to the average cost of gas does not give any
23 indication of the cost to the gas company of providing service to a customer. Questar makes
24 this abundantly clear in its discussion of the cost of providing service to a new customer and its
25 request to increase the new hookup charge. Prices should reflect more than just the average
26 cost, but the fixed/variable approach exactly sets prices at average cost.
27

1 Q. WHAT IS THE CORRECT BASIS FOR IDENTIFYING THE LEVEL OF REVENUE
2 THAT SHOULD BE ASSIGNED FOR RECOVERY THROUGH A FIXED
3 CHARGE?
4

5 A. The appropriate basis for determining the level of the customer charge is through
6 examination of the various costs of providing service, examination of the potential charges to
7 be used for collecting revenue, and determination of how customers respond to those charges,
8 combined with any other policies implemented by the Commission, either explicitly or
9 implicitly. In developing tariffs, one should always keep in mind that incremental usage should
10 be priced near incremental cost. For example, in periods of short supply, the incremental cost
11 of gas is higher than the average cost, so the price of gas to customers should reflect that higher
12 cost. In that case, the customer charge should be set well below non-gas cost to send the
13 appropriate price signal to customers.
14

15 Questar has a similar situation with a significant portion of its gas supply priced at cost-
16 of-service rates, which are ordinarily lower than market-priced gas. This means that additional
17 gas supply (above the Wexpro gas) ordinarily costs more than the average cost, so that gas
18 should be priced to Questar customers at a price greater than the average cost and nearer to the
19 marginal cost. In order to set the volumetric price above the average cost, it is necessary to
20 price the fixed customer charge at a lower price than the average non-gas costs. While the
21 current fixed charge does not recover all of the non-gas costs, there is greater justification for
22 reducing the customer charge than for raising it as proposed by Questar.
23

24 Q. WHAT DO YOU PROPOSE FOR THE CUSTOMER CHARGE?
25

1 A. We propose that the customer charge remain at its current level and that it not be
2 increased. Any additional revenue necessary should be recovered through an increased tail
3 block gas charge.

4 Declining Block Rates

5
6 Q. DOES THE SAME JUSTIFICATION YOU DESCRIBED FOR KEEPING THE
7 CUSTOMER CHARGE AT A MINIMUM ALSO APPLY TO CHANGING THE
8 BLOCK CHARGES FOR GAS?

9
10 A. Yes. With the incremental cost of gas ordinarily above the average cost of gas, the
11 declining block results in encouragement of sales of gas. The problem with this is that these
12 sales cost more to supply than the revenue they produce. This is inappropriate. We
13 recommend that the additional revenue that would be produced from increasing the customer
14 charge instead be recovered by increasing the price of the tail block of the commodity charge.
15 Furthermore, the Commission should consider eliminating the declining blocks from all
16 Questar rates in the future.

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18 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

19
20 A. Yes, it does.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing pieces of testimony was electronically mailed and mailed, postage prepaid, this 30th day of August, 2002, to the following:

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