

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)

**REBUTTAL TESTIMONY OF
DARRELL S. HANSON**

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

OCTOBER 4, 2002

QUESTAR GAS COMPANY
DOCKET NO. 02-057-02
TESTIMONY OF DARRELL S. HANSON
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Q PLEASE STATE YOUR NAME.

A. Darrell S. Hanson.

**Q ARE YOU THE SAME DARRELL S. HANSON THAT SUBMITTED
PREFILED TESTIMONY IN THIS CASE?**

A Yes.

**Q WHAT ISSUES WILL YOU BE ADDRESSING IN THIS REBUTTAL
TESTIMONY?**

A I will address the proposals of Committee witnesses Michael McFadden and Anthony Yankel to (1) require more current rate design and cost allocation studies, (2) split the GS-1 into residential and commercial classes, (3) decrease the proposed main and service line allowances so that the required contribution in aid of construction (CIAC) would recover the full difference between the current costs and the embedded costs of serving new premises, and (4) replacing the FT-1 rate schedule with special contracts.

I will also respond to the proposal discussed by Brian Hassler and Kevin Higgins of the UAE intervention group that interruptible customers should be

given credit for a “call option” because of the requirement that interruptible transportation customers are required to sell gas supplies to Questar Gas Company (QGC) for the use of firm customers on a design peak day.

Q STARTING WITH YOUR RESPONSE TO THE COMMITTEE WITNESSES, DO YOU AGREE THAT MANY OF THE STUDIES DONE BY QGC ARE OUTDATED AND NEED TO BE UPDATED?

A Yes. I Agree that QGC cost allocations and rate design calculations have not been updated for some time and could use a fresh look. I have no objections to the proposal of setting up a separate process to do this. The committee witnesses have proposed a timetable for creating a task force and for having the Company prepare new filings to address cost of service allocations and rate design. I have no particular comments on their schedule except that it would make sense to set up a task force prior to the Company filing so that parties could have some input into the filing.

There is the possibility that QGC will update some of the studies in the next round of testimony. That may create a problem in that other parties will not have sufficient opportunity to respond to the new information.

A general observation is that the recent general rate cases of QGC have focused on revenue requirement and the cost allocations and rate design aspects have been slighted.

**Q WHAT ARE YOUR COMMENTS ON THE IDEA OF INVESTIGATING
THE POSSIBILITY OF SPLITTING THE GS-1 RATE CLASS INTO
SEPARATE RESIDENTIAL AND COMMERCIAL TARRIFFS?**

A The Division has been interested in this for some time and would support such a study. At this time we are not necessarily advocating such a split but would like to know what the facts are.

**Q COMMITTEE WITNESS ANTHONY YANKEL PROPOSES ADDING
ALL OF ANY INCREASE TO THE GS-1 CLASS TO THE TAIL BLOCK
OF THAT CLASS UNTIL ADDITIONAL STUDIES CAN BE MADE, DO
YOU AGREE WITH THAT PROPOSAL?**

A No. That seems to benefit the residential class which is the group he is concerned with but the problem could be that fewer costs should be allocated to the GS-1 class in total. One could argue that the tail block of the GS-1 is high when compared to the interruptible transport rate and that it should be decreased, not increased. The overall cost allocations between rate classes needs to be considered, along with the relationship between the first and second blocks of the GS-1 rate, before making such a change. These are good issues that could be covered by the proposed task force. The solution is much broader than the solution proposed by witness Yankel.

Q DO YOU AGREE WITH THE COMMITTEE WITNESSES THAT THE MAIN AND SERVICE LINE EXTENSION ALLOWANCES SHOULD BE REDUCED TO THE POINT WHERE THERE WOULD BE NO DIFFERENCE BETWEEN THE NEW AVERAGE TOTAL COST AND THE EMBEDDED COST OF EXISTING PLANT?

A No. As I indicated in my prefiled direct testimony, historically new premises served have received some subsidy. All premises were new installations at some time. Having said that, the \$100 movement proposed by QGC is a subjective choice and I would not be opposed to something greater. At some point there is a danger of a competitive impact especially for rental units where initial installation costs would be cheaper for electric appliances. I agree that reducing the subsidy is appropriate but that we should move with some caution.

A related issue deserves some comment. The section of the QGC tariff titled FIRM COMMERCIAL MAIN EXTENSIONS has a payback period of 2.5 years. My understanding is that historically this section dealing with commercial customers was to be comparable with the allowances for residential main extensions. Logically if you are reducing the allowances for residential customers a corresponding reduction should occur for the commercial section. However, QGC personnel have indicated to me that over time this relationship has changed to where the old main extension tariff represents a payback period more in line

with 4.5 years and that the QGC proposal will bring the two closer together. If the decision is to move close to having new customers pay the full difference between the new average total cost and the embedded cost of existing plant, similar changes to the commercial main extension policy should also be considered.

Q COMMITTEE WITNESS MICHAEL MCFADDEN HAS PROPOSED THAT THE FT-1 SHOULD BE ELIMINATED AND REPLACED WITH SPECIAL CONTRACT RATES, DO YOU AGREE WITH THAT PROPOSAL?

A No, I disagree. The FT-1 rate schedule was created to counter the possibility of bypass. In the prior general rate case, Docket No. 99-057-20, I realized that some customers were on this rate that were not potential bypass threats. This led to the creation of the FT-2 rate and a tightening of the criteria to qualify for the FT-1 rate schedule to address this problem. Possibly there are still some customers that qualify for the FT-1 rate that are not real bypass threats. Witness McFadden brings up a good argument in that it is important to make sure that the value of keeping certain bypass customers is greater than the cost to keep them. To address these concerns the DPU would prefer fine tuning the FT-1 rate rather than go to special contracts and having to contend with the inherent problems of special contracts.

Q WHAT IS YOUR RESPONSE TO THE PROPOSAL OF THE WITNESSES FOR THE UAE INTERVENTION GROUP THAT INTERRUPTIBLE TRANSPORTATION CUSTOMERS BE GIVEN A CREDIT IN THE COST OF SERVICE ALLOCATION CALCULATIONS FOR WHAT THEY REFER TO AS A “CALL OPTION”?

A To understand this issue a short historical review is necessary. Prior to the approval of interruptible transportation, only interruptible sales service was allowed. Under that situation when the interruptible customers were interrupted the gas supplies purchased to serve those customers would be available to serve firm customers on peak days. There was a certain synergy that existed. A fixed amount of supplies could be contracted for to serve the interruptible customers and those supplies also served as peaking supplies for the firm customers.

 The loss of this synergy was an issue when the issue of adding transportation as a new service came up. Without some compensating action there would have been a detrimental impact on firm customer rates by allowing transportation. The original solution to this problem was what has been referred to as the “nickel waiver” program. Interruptible transportation customers who did not make the proper arrangements so that their gas would be available for serving firm customers on peak days paid a rate that was five cents greater than those who did. As I recall, the five cents was a somewhat arbitrary number that was arrived

at through negotiations.

Since that time the tariff requirements for having the supplies available have been fine tuned primarily through negotiations between the transportation customers and QGC. Today there is not an option of not having the interruptible supplies available, although QGC plans on only 50% of the supplies really being available in the IRP process. With passage of time it is easy to forget that the requirement that interruptible transportation customers make their gas available for serving firm customers on peak days was to offset a negative impact on firm customers caused by the change to allow transportation. Now there is a proposal before the Commission that a credit to interruptible transportation be made in the cost allocations to compensate for this requirement.

Q IS THERE A VALUE TO FIRM CUSTOMERS FROM HAVING THIS REQUIREMENT AS PART OF THE INTERRUPTIBLE TRANSPORTATION?

A Yes.

Q IF IT IS DECIDED THAT THERE SHOULD BE A BENEFIT ALLOCATED TO FIRM CUSTOMERS BASED ON PROVIDING GAS DURING PERIODS OF INTERRUPTION, ARE THE AMOUNTS CALCULATED BY THE UAE WITNESSES THE APPROPRIATE

NUMBERS?

A No. I have some problems with the calculations of witnesses Byran Hassler and Roger Swenson. They both do a calculation based on the assumption that additional facilities (i.e. storage and or pipeline) would be needed. The QGC tariff allows for the gas provided by the interruption of the IT Schedule customers to be “transported utilizing upstream pipeline capacity held by QGC or can be purchased at the city gate.” It appears interrupted customers have the option of delivering the gas where QGC will use its capacity to get the gas to a QGC city gate. If QGC has the capability to do this there is no need to purchase additional capacity or storage which is the assumption behind the calculations of witnesses Hassler and Swenson. If it is decided that the benefit of having this gas available should be incorporated in the cost allocations a different value for the benefit should be used. I understand that QGC is looking at this issue and may come up with a more appropriate calculation.

**Q COMMITTEE WITNESS MCFADDEN HAS PROPOSED THE
CREATION OF A SEPARATE RIDER FOR CO2 COSTS, DOES THE
DIVISION HAVE ANY PROBLEMS WITH THAT IDEA?**

A. The Division does not have any problem with the concept of a rider. Any rider would have to consistent with the stipulation that we entered into in Docket No. 99-057-20.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

Yes.