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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)	POST-HEARING BRIEF OF
RATES AND CHARGES)	SALT LAKE COMMUNITY
)	ACTION PROGRAM,
)	CROSSROADS URBAN CENTER, AND
)	UTAH LEGISLATIVE WATCH

Pursuant to request of this Commission, Salt Lake Community Action Program, Crossroads Urban Center, and Utah Legislative Watch, collectively known as the Utah Ratepayers Alliance file their post- hearing brief as follows. This brief will focus on the issues of weatherization funding, rate of return and capital structure.

ARGUMENT

POINT I--LOW-INCOME WEATHERIZATION FUNDING BY QUESTAR SHOULD BE INCREASED FROM \$250,000 TO \$500,000

As Item No. 15 of the Allocation and Rate Design Stipulation and Settlement in this case, the parties agreed or did not oppose an increase in funding for low-income weatherization from Questar in the additional amount of \$250,000.00. In addition to being a part of the

comprehensive stipulation, this proposal is appropriate as an expense item for Questar, has been approved in the past by this Commission and serves an important function for citizens of the state.

In Utah PSC Docket No. 99-057-02, Questar was ordered to fund \$250,000.00 of low-income weatherization, to be administered by the Utah Department of Community and Economic Development (DCED). The Order based this decision on several factors: the program met the criteria set forth in Docket No. 99-035-10, the program promotes resource conservation and provides environmental benefits, and addresses an important safety issue. This last rationale, the safety issue, was of particular interest and import to Chairman Mecham.

All of these earlier bases of support are still valid today and support the increased funding that the parties have agreed to. Witness Michael Johnson focused on furnace tuneup and safety tests. (T.85). He described how the Questar component of the weatherization program was important to be able to replace furnaces and do other safety related work that could not be covered by the other sources of weatherization funding alone. In response to questioning from Commissioner Campbell, he indicated that an important component of the program are the health and safety benefits to Utah residents(T. 93). Significantly, Witness Johnson noted that some of the local weatherization agencies had to turn down requests for assistance with furnaces or other gas appliances, but “with the infusion of the Questar funds, we’re able to leverage that and complete these homes in a manner that they really need to be.” (T.95). Witness Johnson also responded to Commissioner White’s questions by pointing out that all of the Questar funds for weatherization would go to Questar customers for safety checks, furnace tuneups and furnace replacements. (T. 99). All of this testimony from Witnesses Johnson, Wolf and Fox indicate that

the Questar weatherization funds would be well used for safety enhancement along with other funds which are used more for other aspects of weatherization required by the US Department of Energy, including lead paint removal.

Witness Johnson articulated in real terms what Chairman Mecham described in the earlier Questar order as “a safety issue that may otherwise be difficult to alleviate.” PSC Docket No. 99-057-02 at 60-61.

The underlying legal basis for this earlier order is also clear from the colloquy about Utah Code §54-31-1 that took place in this case. That statute, among other things, defines “just and reasonable” in the rate setting context to include economic impacts on customers, well-being of the state of Utah, and means of encouraging conservation. The health and safety concerns are certainly part of the well-being of the state subsection, as Witness Fox testified (T.97).

Witness Johnson also testified about the conservation aspects of the proposed weatherization plan. He indicated that savings in the 20 to 30 % range were reported.(T.92). Witness Fox echoed both the health and safety and the conservation aspects of the program and how this meshed with the statutory definition. (T. 97). Company witness McKay also supported the weatherization funding in his testimony in support of the stipulation, focusing on conservation. (T. 88).

The final issue on this topic was one raised by Commissioner Campbell concerning the relationship between the ratepayer impact test used with electric DSM programs and the weatherization program for gas here. As Witness Wolf testified, the RIM test is not the correct standard, but with electric DSM, the standard was cost effectiveness, with a special nod toward those programs which passed the RIM test. She was apparently referring to this Commission’s

Order on Reconsideration of DSM Issues in Docket No. 01-035-01, a recent PacifiCorp case wherein this Commission stated:

We [the Utah PSC] envision that resources that are cost-effective under a broad array of assumptions are developed as soon as possible. The group [the IRP group and the Energy Efficiency Task Force] should concentrate on those demand-side resources that pass the Ratepayer Impact Measure. In addition, special attention should be given to those resources that will provide the most impact on cost savings or those resources that are least cost. [October 29, 2001 at p.4]

The prefiled testimony of Witnesses Johnson, Wolf and Fox, as well as the additional testimony at the hearing, make it clear that the weatherization measures are cost effective and the funding here complies with the statute and with previous orders of this Commission and should be approved.

Various public witnesses echoed this testimony and further supported the inclusion of funding for weatherization and related programs. See, e.g. Testimony of Pamela Jensen, T. 558-562 (health and safety); Sara Wright, T. 583-4 (need for weatherization and additional cost-effective DSM); Barbara Toomer, T. 588 (weatherization important for disabled people).

POINT II—THE UTAH RATEPAYERS ALLIANCE CONCURS WITH AND ADOPTS THE POSITION OF THE COMMITTEE OF CONSUMER SERVICES ON THE ISSUES OF RATE OF RETURN AND CAPITAL STRUCTURE

The testimony of Committee Witness Parcell, relying upon risk profile and modeling analysis, demonstrated that the Company's appropriate rate of return should be well below 11%. The Utah Ratepayers Alliance adopts this testimony and conclusion.

The Company's proposed rate of return is too high for a variety of reasons, including methodological flaws in its expert's analysis. Its witness, Dr. Williamson, has a bad track record with this Commission, having his recommendations rejected in 1990 in Docket No.89-057-05

for reasons that are in essence repeated here and justify rejecting his analysis again: he utilized the median not the mean when calculating an average rate of return among his sample utilities, he chose improper companies to use as comparable ones, and he failed to acknowledge the downward trend of rates of return for gas utilities now occurring.

Not only did the Company fail to establish its case for an increase in its allowed rate of return on equity, it failed to counter Committee and Division evidence that its current rate is too high and should be substantially reduced. Committee Witness Parcell also examined the “risk profile” of the Company, and concluded that the utility’s high bond ratings were reflective of the lower risk profile of the Company in comparison to other Questar companies and most other gas distribution utilities he examined.

Committee Witness Parcell noted a number of Questar specifics which greatly reduced its risk profile and increased its attractiveness to an investor, including the gas-balancing account, proprietary gas supplies which reduce gas supply risk, reduced bad-debt exposure, and its position as the only investor-owned gas distribution utility in Utah.

The Company simply failed to refute Committee Witness Parcell’s analysis and conclusions, based as they were on well-recognized cost of equity methodologies very similar to those used by Division Witness Powell. The witnesses utilized the DCF, CAPM, and CE methodologies, with primary emphasis on the DCF methodology, to estimate a proper rate of return for the Company. Parcell concluded the Company’s return on equity in this case should fall out at the lower end of his 9.5% to 11% range or roughly 10%.

Parcell also accounted for, and Company Witness Williamson ignored, the state of the national economy, certainly weaker now than in previous Questar cases. The cost of money is

today lower than it was in 1990. The rate of inflation is lower. And stock prices are lower. That Questar's stock has withstood this downward trend tells us that investor confidence is high in Questar. All of these indicators point to the conclusion that the Company should receive not an increase in its allowed rate of return on equity, but rather a substantial decrease.

Similarly, short term debt should be included as a part of the Company's capital structure. The Utah Ratepayers Alliance also concurs in the Committee position here as articulated by Committee Witness Parcell. Short-term debt in the recent past and likely continuing for the next years has lowered the Company's cost of capital. No ratepayers should be asked to pay more than what the Company actually has to pay for capital. This Commission should recognize that the Company utilizes short-term debt in its operations and should include it for rate-making purposes, again as explained by Committee Witness Parcell.

CONCLUSION

This Commission should adopt the portion of the Stipulation Exhibit No. 2 which authorizes an additional expenditure of \$250,000.00 for low-income weatherization to be administered by the Utah DCED as the other weatherization funds are administered.. This expenditure has been shown to fit within the statutory parameters of just and reasonable rates and to serve important public purposes.

The Commission should adopt the testimony and position of the Committee of Consumer Services as to rate of return and capital structure because the testimony of Witness Parcell articulated a clear and supportable analysis which the Company witness lacked. The Company, having failed to support its claim for a rate increase should be awarded a decrease in rate of return on equity to 10% and the capital structure should include the short term debt, again for the

reasons articulated by Witness Parcell.

Respectfully submitted,

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