

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Joint Application of
Questar Gas Company, the Division of Public
Utilities, and Utah Clean Energy for the
Approval of the Conservation Enabling Tariff
Adjustment Option and Accounting Orders

Docket No. 05-057-T01

DIRECT TESTIMONY OF BARRIE L. MCKAY

TO SUPPORT THE CONTINUATION OF THE CONSERVATION ENABLING TARIFF

FOR QUESTAR GAS COMPANY

June 1, 2007

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1 **Q. Please state your name and business address.**

2 A. My name is Barrie L. McKay. My business address is 180 East First South Street, Salt Lake
3 City, Utah.

4
5 **Q. Are you the same Barrie L. McKay that filed Direct, Surrebuttal and Settlement**
6 **Testimony in this docket?**

7 A. Yes, I am.

8
9 **Q. What is the purpose of your testimony today?**

10 A. I will set forth Questar Gas Company's (Company) recommendation to continue the
11 Conservation Enabling Tariff (CET), with minor modifications. I will provide an overview
12 of the operation of the CET, as well as discuss the impacts of the CET since its inception. I
13 will also provide an overview of the Demand-Side Management Pilot Program. I will begin
14 by providing a brief history of the evidence submitted previously in this docket in support of
15 adoption of the CET.

16

17 **I. OVERVIEW OF THE JOINT APPLICATION FOR APPROVAL OF**
18 **THE PILOT PROGRAM**

19

20 **Q. Would you please provide an overview of the Joint Application for approval of the Pilot**
21 **Program?**

22 A. The Company, the Division of Public Utilities (Division), and Utah Clean Energy
23 (collectively referred to as the Joint Applicants) requested that the Commission allow the
24 Company to pursue energy efficiency by approving the CET and Demand-Side Management
25 (DSM) Pilot Program (Pilot Program). The Joint Application noted that national, state and
26 local support for adoption of programs to promote energy efficiency was gaining momentum.
27 The Joint Applicants asked the Commission to remove the barrier that discourages the
28 Company from aggressively pursuing energy-efficiency initiatives. The Joint Application
29 explained that the CET and DSM would provide a net benefit to all customers. The Joint

30 Applicants stated that approval of the Pilot Program would not diminish the Commission's
31 or Division's ability to perform their regulatory roles.

32

33 **Q. Would you please provide an overview of your Direct Testimony filed in support of the**
34 **Joint Application?**

35 A. Yes. The purpose was to explain the proposed Pilot Program. The Pilot Program consisted
36 of two components: 1) the DSM programs; and 2) the CET. I explained the operation of the
37 CET and discussed the benefits of the Pilot Program. I also provided a description of the
38 components of the requested \$10.2 million rate reduction and addressed other proposed
39 changes.

40

41 **Q. Would you please provide an overview of your Surrebuttal Testimony?**

42 A. The purpose of my Surrebuttal Testimony was to respond to issues raised in rebuttal
43 testimony or by Commission Staff. These issues included:

44 1) DSM – How the Joint Applicants' proposal will work and why it is in the
45 public interest.

46 2) Full Decoupling – Why this was chosen by the Joint Applicants as the
47 preferred option.

48 3) Return on Equity (ROE) – Why any adjustment to the Company's allowed
49 ROE is not appropriate in this proceeding.

50 4) New Options – The Committee of Consumer Services' (Committee) witness
51 Dr. Dismukes presented three "new" options. These options were considered
52 and rejected by the Allocation and Rate Design Task Force or the Working
53 Group that continued to meet following the Task Force Report.¹ (For
54 purposes of my testimony, references to "Task Force" include the Working
55 Group.)

56 5) The "minimum requirements" of the Committee's "alternative
57 recommendation" – These requirements had already been addressed by the

¹ The Task Force met from January 2003 until June 2004 when the Task Force Report was filed. From June 2004 through December 2005, the

58 Joint Application and need not be adopted.

59 6) Response to the Commission Staff's questions asked in the June 7, 2006,
60 Technical Conference.

61

62 **Q. Would you please provide an overview of your Settlement Testimony?**

63 A. The purpose of my Settlement Testimony was to describe the Settlement Stipulation and to
64 explain why the Settlement was just and reasonable and why its adoption by the Commission
65 was in the public interest.

66 **Q. Please briefly review the terms of the Settlement Stipulation.**

67 A. The Settlement Stipulation provided the Pilot Program would go into effect on the first day
68 of the month following Commission approval. The parties agreed the Company would make
69 an initial credit to the CET balancing account of \$1.1 million as though the CET had been in
70 effect from January 1, 2006, through June 30, 2006. The parties agreed the Company would
71 amortize that credit (through a reduction in rates) in conjunction with the Company's fall
72 2006 pass-through filing. The parties agreed amortization of other accruals to the CET
73 starting with July 2006 would take place in subsequent semiannual pass-through filings. The
74 parties agreed to limitations on both the accruals to and amortization of CET balances during
75 the first year of the Pilot Program.

76 The parties agreed that there would be a 1-year review of the CET Pilot Program starting
77 with a technical conference in April 2007 and the filing of testimony or position statements
78 advocating continuation, changes or alternatives to or discontinuance of the CET by June 1,
79 2007. This testimony is filed pursuant to that portion of the Settlement Stipulation. The
80 parties agreed that they would cooperate in scheduling a proceeding so that the Commission
81 could issue an order on the future operation of the CET by the end of September 2007.

82 The parties agreed the Company would file an application requesting approval of DSM
83 programs within sixty days of Commission approval of the Settlement Stipulation. The

84 parties also agreed the Commission should formally recognize the DSM
85 Advisory Group that had been meeting unofficially since December 2005.

86 **Q. When did Questar Gas implement the Conservation Enabling Tariff?**

87 A. The CET was implemented November 1, 2006, the first month following approval of the
88 Settlement Stipulation. However, as previously discussed, it was effectively implemented on
89 January 1, 2006, through the initial \$1.1 million credit accrual and monthly CET entries
90 made for the July – October period.

91 **Q. Did the Company file an application within 60 days following the Commission’s order ?**

92 A. Yes. The Company, with significant input from the DSM Advisory Group, filed an
93 application on December 5, 2006, requesting approval of six initial energy-efficiency
94 programs. These programs support the Company’s comprehensive market-transformation
95 initiative. I will provide an overview of the status of the DSM Pilot Program later in this
96 testimony.

97

98 **II. BENEFITS OF THE CET**

99 *a. Primary Benefits*

100

101 **Q. What are the primary benefits of the Conservation Enabling Tariff?**

102 A. Three primary benefits have been identified. The Conservation Enabling Tariff provides a
103 simple mechanism that: 1) allows the Company to collect the Commission-allowed
104 distribution-non-gas (DNG) revenue; 2) allows the Company to aggressively promote energy
105 efficiency; and 3) aligns the interests of the Company and regulators for the benefit of
106 customers.

107

108 **Q. Please explain how these benefits were achieved.**

109 A. First, the CET has decoupled DNG revenue collection from customer gas-usage levels. With
110 the CET the Company only collects the Commission-allowed revenue, nothing more, nothing
111 less. Second, once the barrier was removed, the Company, with significant assistance from

112 the DSM Advisory Group, has successfully launched an aggressive campaign to promote
113 increased energy efficiency. Finally, the CET has aligned the interests of the Company and
114 regulators for the benefit of customers by creating an atmosphere where customers no longer
115 receive mixed signals about usage and conservation. The parties are now aligned in a
116 message promoting energy efficiency.

117 *b. The CET Has Decoupled Revenues From Usage*

118

119 **Q. What did the CET mechanism accomplish in the first year?**

120 A. During the first year, including the first six months of 2006 when the CET accruals were
121 effectively implemented through a single entry, usage per GS customer increased slightly.
122 The total CET accruals reflected this by crediting to the deferral account approximately \$1.75
123 million in “over collection” of Commission-allowed DNG revenue. This demonstrates the
124 symmetrical nature of the mechanism and has resulted in lower DNG rates for GS customers
125 than would have been the case without the CET. QGC Exhibit 1-YR 1.1 shows the accruals
126 booked in 2006.

127

128 **Q. Is it important to look at 12-month periods when considering CET results?**

129 A. Yes. The CET is designed to ensure that the Company only collects the annual DNG
130 revenue per customer allowed by the Commission. The allowed DNG revenue to be
131 collected per customer is spread over 12 months. Any month-to-month volatility in the CET
132 accruals is removed when 12 months are considered in aggregate.

133

134 **Q. Do you believe the CET is working as expected?**

135 A. Yes. The accruals resulting from the CET make sense. When usage per customer has
136 increased, the CET accruals reflect over collection of revenues. When usage has declined,
137 the CET accruals have reflected the under collection. The Company can no longer increase
138 revenues by encouraging customers to increase gas usage. Instead the incentive for the
139 Company is to focus on managing operations with an eye to efficient, safe and reliable
140 service.

141

142 **Q. Have you prepared an exhibit that shows the balance for the CET deferral account**
143 **through the end of April 2007?**

144 A. Yes. QGC Exhibit 1-YR 1.2 shows the monthly accruals for the first 16 months of the CET,
145 the interest entries and the amortizations that have occurred through April 30, 2007. The
146 amortization of the initial CET balance has reduced customer bills by \$870,699. The balance
147 in the account as of April 30, 2007, is \$3,241,969.

148

149 *c. The CET Has Removed the Barrier to Promoting Energy Efficiency*

150

151 **Q. Do you believe the CET has been effective in removing the barrier the Company has**
152 **faced in promoting energy efficiency?**

153 A. Yes. As evidenced by the first-year results, the CET has decoupled the link between
154 customer usage (volumetric sales) and DNG revenue collection. The Company has
155 aggressively pursued the implementation of energy-efficiency programs and the market-
156 transformation initiatives. Our customers are responding positively to the new energy-
157 efficiency campaign.

158

159 **Q. Can you provide an update on the progress the Company, with the assistance of the**
160 **Advisory Group, has made to implement energy efficiency?**

161 A. Yes. QGC Exhibit 1-YR 1.3 provides an overview of the energy-efficiency rebate programs,
162 the energy audits and the market-transformation initiative implemented in the months
163 following approval of the Settlement Stipulation. QGC Exhibit 1-YR 1.4 provides details on
164 the participation levels we have experienced since the February 26, 2007, program launch.

165

166 **Q. Are the participation levels since the program launch in line with projected**
167 **participation rates?**

168 A. Yes. As can be seen on QGC Exhibit 1-YR 1.4, the ThermWise Programs are on track. We
169 are three months into the first year. The ThermWise Appliance Rebates are at 26% of annual
170 target levels. ThermWise Weatherization Rebates are at 33% of annual target levels.

171 ThermWise Business Rebates are at 26% of annual target levels. ThermWise Home Energy
172 Audits are at 16% of annual target levels. The ThermWise Builder Rebate Program is just
173 beginning. Builders have shown an unexpected level of interest in building Energy Star®
174 Homes. Early indications show that builders intend to build 4,651 Energy Star® Homes this
175 year. This is 279% of our annual target. These participation levels indicate we are meeting
176 our energy-efficiency goals.

177

178 **Q. Are the energy-efficiency programs being well received by the Company's customers?**

179 A. Yes. The initial response has been very good in terms of direct participation from customers,
180 home builders and other trade allies. Customers are providing positive feedback on the entire
181 campaign, including ease of participation with the rebate programs and awareness and
182 understanding of the energy-efficiency message. The Division, with input from the Advisory
183 Group, is making progress on defining a protocol for program evaluation.

184

185 **Q. The Company has made substantial progress in a short period of time. Is this a result
186 of the Conservation Enabling Tariff?**

187 A. Yes. Obviously the removal of the barrier through the implementation of the CET has been a
188 major factor, but the aggressive approach the Company has pursued goes well beyond simple
189 barrier removal. The Company is motivated to maintain the CET. This should help explain
190 the extensive initial response of the Company in implementation of energy efficiency.

191

192 **Q. Has there been increasing nationwide momentum to remove the barrier for natural gas
193 utilities to promote energy efficiency?**

194 A. Yes. With continued tight supplies of energy and concerns about climate change and CO₂
195 emissions, energy-efficiency improvements are more important than ever. Governor
196 Huntsman continues to stress the importance of increasing energy efficiency and removing
197 regulatory barriers to promoting energy efficiency. More than 30 states have either allowed
198 or have pending before their state commissions some form of barrier removal. Interestingly,
199 the three approaches analyzed and preferred by the Task Force have been the approaches that

200 have gained traction. The three approaches are: 1) full decoupling; 2) straight-fixed-variable
201 rate designs; and 3) revenue stabilization. QGC Exhibit 1-YR 1.5 is a map of the continental
202 United States showing the status of proceedings regarding these three approaches for natural
203 gas utilities. This represents a significant increase in activity and action since the filing of
204 the Joint Application. Now is not the time for Utah to take a step backward by removing or
205 restricting the Conservation Enabling Tariff.

206 *d. Alignment of Interests*
207

208 **Q. Has the CET been effective in aligning the interests of the Company and stakeholders?**

209 A. Yes. The CET, as noted earlier, has been effective in removing the barrier to promoting
210 energy efficiency. With the CET in place, the Company has no reason to limit its efforts to
211 promote energy efficiency. The Company's DSM Pilot Program has progressed at a pace
212 that reflects the advantage gained when interested stakeholders fully cooperate to attain a
213 common goal—in this case, helping customers to achieve greater energy efficiency.
214

215 **III. RECOMMENDATIONS**
216

217 **Q. What is the Company's proposal regarding the CET?**

218 A. The Company recommends the CET continues to operate through the end of the Pilot
219 Program.
220

221 **Q. The initial approval of the CET Pilot Program included limits to the accruals and**
222 **amortizations. Is it necessary to continue to limit accruals and amortizations?**

223 A. No. The implementation of the CET and the resulting accruals have shown the limits are not
224 necessary. The Company is receiving mixed signals resulting from decoupling with limited
225 accruals and amortizations. These mixed signals suggest a limited approach to energy
226 efficiency is preferred over an aggressive one. The Company has aggressively implemented
227 energy efficiency even with the limitations in an effort to demonstrate its good faith and
228 commitment. However, continuing the limitations is counterproductive and inconsistent

229 with removal of the barrier.

230

231 **Q. Does the Company have a recommendation regarding a revised monthly spread of the**
232 **revenue per customer?**

233 A. Yes. The Company recommends that effective on January 1, 2008, the month-to-month
234 spread be modified to reflect the average monthly DNG revenue per customer experienced in
235 the immediately preceding 36-month period. QGC Exhibit 1-YR 1.6 shows the month-to-
236 month spread of the Commission-allowed DNG revenue using 2005 and 2006 data. The
237 recommended month-to-month spread will include 2007 data and will be used to calculate
238 the CET accruals beginning with the January 2008 accrual. The Company will work with the
239 Division to review the revenue-per-customer data and to calculate the revised month-to-
240 month spread.

241

242 **Q. Will this revised monthly spread change the total amount the Company is authorized to**
243 **collect in DNG revenue per customer?**

244 A. No. Column I, line 13, of Exhibit 1-YR 1.6 shows a net difference of zero over the full year.
245 The recommended month-to-month spread simply reallocates the same annual amount based
246 on more recent experience.

247

248 **Q. Have you prepared proposed tariff sheets that incorporate the Company's**
249 **recommendations?**

250 A. Yes. QGC Exhibit 1-YR 1.7 provides tariff sheets 2-17 and 2-18 reflecting the changes
251 required to implement the Company's proposals as described herein in both legislative and
252 proposed format. When data becomes available for 2007, revised tariff sheets will be
253 prepared and reviewed by the Division and filed with the Commission to reflect the monthly
254 spread of DNG revenue per customer. As noted earlier, this revised month-to-month spread
255 will be effective for January 2008.

256

257 **Q. Does this conclude your testimony?**

258 A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Barrie L. McKay, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

Barrie L. McKay

SUBSCRIBED AND SWORN TO this 1st day of June 2007.

Notary Public