State of Utah
DEPARTMENT OF COMMERCE
Committee of Consumer Services

To: The Public Service Commission of Utah

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Date: August 24, 2006

Subject: 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. 06-057-T01; GSS-EAC Task Force

ISSUE

Questar Gas Company (QGC or Utility) estimates that the un-recovered expansion costs associated with customers currently taking service under GSS rates and the EAC Tariff are approximately $1.7 million. The salient issue is whether those costs should be borne by those GSS-EAC customers, the utility, other tariffed customers; or alternatively, should some sharing of this cost responsibility occur.

BACKGROUND

The Utah Public Service Commission (Commission) issued an order on January 5, 1987 approving QGC's request to extend natural gas service to communities in nine Utah and Idaho counties and charge customers in those communities a "GSS" rate that was double the GS-1 rate.[1] Based on the cost estimate of the expansion, the GSS rates were charged to these customers in these communities for a period of 10 years. Subsequently, customers in these communities were moved onto the GS-1 rate schedule.

In Docket No. 93-057-03, a second wave of GSS rates were approved by the Commission in connection with QGC's expansion off the Kern River system in Southern Utah. At that time, QGC estimated customers in those communities needed to pay GSS rates for a period of 20 years to enable the Utility to recover the expansion costs. Customers in those communities have been paying the GSS rates for approximately 13 years and the rates are scheduled to expire by 2013. However, it became apparent in the task force discussions that QGC does not have the necessary records to accurately determine whether the monies collected from customers via the GSS rates are sufficient to cover the actual expansion costs.[2]

In Docket No. 96-057-07, the Commission approved an application by QGC for a new Extension Area Charge (EAC) Tariff that supplanted the GSS rates for extending service to new areas.[3] QGC initially developed the EAC in response to a petition for service by Ogden Valley. The EAC differed from GSS rates in that it basically operated as a 15-year loan (with interest at the Utility's authorized pre-tax rate of return) that was applied on customers' bills as a separate monthly service charge to recover expansion costs. EACs differed among communities based on initial participation levels and expected additional participation as growth occurred. Of the 10 communities taking service from QGC under its EAC Tariff, only Ogden Valley has paid off its EAC loan.

In March 2005, representatives from Beaver County sent a letter to the Commission indicating that the GSS-EAC rate "surcharges" placed rural communities at a competitive disadvantage when attempting to attract new business to their areas. This prompted the Commission to launch an investigation, which eventually resulted in QGC lowering the interest rate charged on unpaid loan balances. Specifically, the interest rate was lowered in September 2005 from QGC's pre-tax rate of return of 13.86% to its after-tax rate of return of 9.64%; this reduced the EAC charges and made them more consistent with the GSS rates. Ogden Valley was able to timely pay off its EAC loan and the outstanding loan balances attendant to other EAC communities was reduced.

As part of the CET Application (Docket No. 05-057) filed on January 23, 2006, the Joint Applicants proposed to (1) eliminate the GSS rates and (2) establish a task force to

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[1] Docket No. 86-057-03

[2] It should be noted that the payback period for the second wave of GSS communities was estimated using an interest rate based on QGC's after tax rate of return. This differs from the interest rate initially charged to customers in communities that were provided service under the EAC; that interest rate reflected the Utility's pre-tax rate of return.

[3] Docket No. 96-057-07

address policy issues regarding EACs and future expansion requests. In approving a stipulation that reduced revenue requirement by $9.7 million in the "first phase" of the CET Docket, the Commission ordered the creation of a task force to address GSS-EAC issues and make appropriate recommendations. The Committee of Consumer Services (Committee) now offers its perspective on these matters.

3 DISCUSSION

3.1 GSS-EAC Rates—Economic Implications for Rural Communities

Representatives from rural communities have complained that the GSS/EAC rate surcharges have had a dampening effect on economic development in rural areas. They contend that these surcharges place certain rural communities at a distinct disadvantage when attempting to compete with larger cities for new business and industry. While the Committee has not carefully analyzed these claims and believes that further discussion of rural economic development issues needs to take place at the legislative level, we are sympathetic to the possibility that the surcharges have created an uneven playing field and efforts should be made to effectuate a reasonable and fair solution.

3.2 GSS Customers

Customers in the second wave of communities signing up for GSS rates have paid these higher rates for 13 years, or three years longer than the first wave of communities taking service under the GSS rate schedules. According to information circulated in task force meetings, QGC estimates that immediately converting these customers to GS-1 rates would generate a revenue shortfall for the utility totaling $1.2 million.[4] If this $1.2 million revenue shortfall was borne by GS-1 customers, the increase on monthly bills would be $0.13.

It appears that some task force members support eliminating the GSS rate and recovering the alleged revenue shortfall from the GS-1 class.[5] However, the Company has not maintained adequate records of the revenues collected from customers in the various GSS communities. Stated differently, the Utility cannot document that the revenue shortfall sums to $1.2 million.

GSS communities may have made significant progress in paying off the expansion costs such that the GSS rate could be eliminated earlier than the scheduled 20 years. If this is the situation and the Commission approved a

[4] The Committee understands that the $1.2 million figure represents the difference between the estimated revenues collected from GSS customers over a 13-year period versus a 20-year period.

[5] The cost recovery proposal by certain task force members may not be limited to the GS-1 class. Other classes such as interruptible sales (IS) and interruptible transportation (IT) may be asked to cover the alleged revenue shortfall as well.

proposal to immediately convert those customers to the GS-1 rate and allow QGC to recover the outstanding balance from other customers, then the Utility would recover a phantom cost and thereby receive a windfall profit.

The lack of GSS revenue documentation by the Utility is problematic from the standpoint of developing a reasonable proposal for dealing with any alleged revenue shortfall. The Committee has discussed the concept of a three-way sharing among GSS customers, utility shareholders and other customer classes (GS-1, IS, IT, etc.) of any revenue shortfall resulting from eliminating GSS rates, but the lack of demonstrable evidence that the $1.2 million is a "known and measurable" cost has prevented us from developing a specific proposal.

3.3 EAC Customers

Nine communities currently take service from QGC under the EAC tariff. Customers in those communities pay monthly EAC surcharges ranging from $16.50 to $30.00. Even with the lowering of the interest rate from 13.86% to 9.64% in September 2005, recent information furnished by QGC indicates that those communities will take between 8-17 additional years to pay off their respective loan balances.

During task force meetings QGC provided information showing that the unpaid loan balances for these nine communities totaled roughly $500,000. Immediately converting customers in these EAC communities to GS-1 rates would increase other GS-1 customers' monthly bills by $0.06. It appears that some parties support eliminating the EAC Tariff and collecting the unpaid loan balances from other customer classes (GS-1, I-4, IT, etc.).

The Committee believes that a three-way sharing of the revenue shortfall stemming from the unpaid loan balances among EAC customers, utility shareholders, and other customer classes (GS-1, I-4, IT, etc.) could produce a fair and reasonable outcome. A three-way sharing proposal would, at a minimum, need to address: a precise determination of the EAC revenue shortfall; the date for the elimination of current EACs; the development of a surcharge that could be assessed on the bills of GS-1, I-4 and IT customers; whether the surcharge should be implemented in a general rate case or as a tariff change outside a rate case; time limitations on any rider so that the Utility does not collect excess revenues from GS-1, I-4 and IT customers.

3.4 Future Expansion of Service to Rural Communities

In addition to the issues involving customers in existing GSS-EAC communities, there is the ongoing issue of future expansion of natural gas service to rural communities. The checkered history of the GSS-EAC rates suggests that new remote communities seeking natural gas service should either have funding in place before the Utility begins work on an expansion project or these communities should seek legislative assistance in supporting such projects. The Committee believes that asking existing customer classes (GS-1, I-4, I-T) to subsidize future expansion projects in remote rural communities through higher rates represents poor public policy.

4 RECOMMENDATION

The Committee recommends that the Commission convene a technical conference in the near future to discuss the issues raised, information provided and perspectives offered in any reports or memoranda filed in connection with the GSS-EAC matter. A technical conference may help to shape a joint proposal that most, if not all, parties could support.