- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application to Remove GSS and EAC Rates from Questar Gas Company's Tariff	)))))	DOCKET NO. 06-057-T04 ORDER ON STIPULATION

ISSUED: April 24, 2007

SYNOPSIS

The Commission declines approving a stipulation which would excuse some of Questar Gas Company's customers from payment of General Service Southern rates and Expansion Area Charges.

By The Commission:

Presented to the Commission is a February 15, 2007, stipulation (Stipulation) negotiated by Questar Gas Company (Questar or the Company), the Division of Public Utilities (Division), the Committee of Consumer Services (Committee) and representatives of various communities or areas in which General Service-Southern or GSS rates (including IS-4 and ITS rates) and Expansion Area Charges or EACs are used in billing for utility service from Questar. Pursuant to public notice, a March 27, 2007, hearing was held by the Commission to receive evidence and argument on whether to accept or reject the Stipulation. Parties participated during a morning and afternoon session and public witnesses also participated in an evening Public Witness Hearing.

Appearing at the March 27, 2007, hearing were Questar, appearing through counsel Colleen Larkin Bell, in-house counsel, and Gregory B. Monson, of the law firm Stoel Rives, and through witness Gary L. Robinson; the Division, appearing through counsel Michael

Ginsberg, Utah Assistant Attorney General, and through witness Marlin H. Barrow; the Committee, appearing through counsel Paul Proctor, Utah Assistant Attorney General, and witness Daniel E. Gimble; and Roger Ball, appearing personally and without counsel. Also at the hearing were Robert G. Adams, of the Beaver County Economic Development Corporation, Michael McCandless, the Economic Development Director and Planner for Emery County, and other public witnesses as reflected in the transcript.

GSS RATES

To understand the issues raised in these proceedings and our decision concerning the Stipulation, a review of the history concerning GSS rates and EACs is helpful. Pursuant to Questar's tariff provisions, new customers of Questar may be required to make a non-refundable payment to aid in the recovery of costs of utility plant needed to connect the customer to the Company's utility system. These are known as line extension charges. The common practice of utilities and regulation is to provide a set length or distance from existing utility distribution plant to the customer's desired service location or a dollar amount for utility costs incurred to make a service connection as a line extension allowance for customers, which, if not exceeded, requires no extra payment from the customer for service extension. The assumption being that the utility's costs for the line extension plant needed to connect a new service location (typically from the street to a new building) will be recovered by the utility in rates charged for future utility service as long as the individual customer's circumstances fall within the line extension allowance. However, where a customer's unique circumstances (usually because of extended distance from the utility's in-place plant or unusual engineering or construction circumstances) result in his extension costs being greater than the line allowance, the individual customer is asked to pay the additional costs.

Historically, under certain circumstances, Questar has allowed discrete groups of customers (e.g., potential customers in a residential neighborhood receiving new service) to pool line allowances so that if one customer's connection costs were less than the applicable allowance, that difference could be used by another customer in the group to defray his costs which may exceed his individual allowance. The result is so long as the customers' overall costs were within the aggregated or pooled allowances, no additional line extension charges would need to be made by an individual customer. But, if total costs did exceed the aggregated line allowances, the group of customers would need to arrange payment of the amount which exceeded the combined allowances. Although this approach may accommodate utility plant extension to relatively small groups of new customers in small localized areas near the Company's existing utility plant, it has its limitations for new service in larger areas which may be located far distant from the Company's existing utility infrastructure. Here, there may be significant capital expenditure to build out utility plant needed to simply reach the community as a whole, let alone the costs of the anticipated new distribution plant that may be installed in the locale's streets and roads from which individual customers would then receive their buildings' individual service lines. Additionally, the costs of building a new distribution system in a new locale with low customer density (where potential customers may be geographically dispersed) is generally more expensive per customer than in a higher density area, even though the total number of customers may be the same.

When considering whether to expand its utility plant, Questar makes its independent business decision on whether to expend its own funds to expand its utility plant to serve new areas, relying upon its applicable tariff charges (generally, line extension fees and utility service rates) to generate sufficient revenues to recoup the costs of the expansion. If the anticipated revenues are insufficient to meet the Company's business return expectations, vis à vis the expected costs to extend into a new service area, the Company will decide not to enter the new area to provide utility service. Unserved communities desiring natural gas service have explored alternative means of providing sufficient revenues or money to the Company to aid in defraying the costs of an expansion to serve them. These alternatives include forming special service districts, local government bonding or governmental financing as a means to provide additional sums to help the Company defray the costs of expanding into new areas where there is no utility service.

In the 1980s, several communities in central and southern Utah had indicated interest in having Questar (at that time known as Mountain Fuel Supply Company) extend natural gas service to them. In 1986, Questar proposed an expansion of its utility distribution system into southern areas of the state where it had no utility plant and wherein it previously had not served. In Docket No. 86-057-03, the Company proposed, and the Commission approved, a service expansion plan outlined in the docket as well as the Company's use of what was called a General Service-Southern or the GSS rate. The GSS rate included a doubling (relative to that charged to customers in the existing northern service area) of the distribution non-gas (DNG) portion of monthly utility charges for natural gas service. This GSS rate was intended to be in effect for a 10-year period in the new expansion areas considered in the docket, with the doubled DNG portion projected to provide Questar with additional revenues for the additional costs incurred to build the new utility plant infrastructure needed to serve these previously unserved communities. At the end of the planned 10-year period, customers in these areas were to be, and in fact were, converted to the GS-1 rate schedule, the rate charged or applied to customers in the Company’s existing northern service area, with that schedule’s single application of the DNG portion in service charges.

The rate design concept underlying the GSS rate, an additional DNG portion increment to aid in the recovery of the unique expenses associated with expanding plant to and starting new service to outlying unserved communities, was subsequently used in additional Questar expansion projects. In 1992 and 1993, additional communities in central and southwestern Utah requested natural gas service from Questar. Because these communities were even more remote than the communities reached through the Docket 86-057-03 approved expansion and had smaller populations and expected growth rates, Questar estimated that the GSS rate would have to be collected from customers in these communities for 20 years to provide an opportunity to recover the capital expenditures projected for these expansions. With the support of these communities, these expansions and application or use of the GSS rate for a 20-year period were approved by the Commission in various dockets. Currently, the GSS rate is used and is scheduled to expire between 2012 and 2013 for the following expansion communities and areas: western Iron County, including the community of Newcastle; northwestern Washington County, including the communities of Enterprise, Central, Veyo, Diamond Valley, Dammeron Valley and Winchester Hills; Millard County, including the communities of Leamington, Lynndyl, Delta, Scipio, Holden, Filmore, Meadow, Hinckley, Deseret, Oasis and Kanosh; Beaver County, including the communities of Milford, Minersville and Beaver; and Emery County, including the communities of Elmo and Cleveland.

EXTENSION AREA CHARGES

An alternative rate design, also intended to provide additional revenues to help in recovering the unique capital costs associated with the expansion of utility infrastructure into previously unserved communities, was subsequently proposed by Questar and utilized by the Commission. In 1995, Ogden Valley residents and Questar proposed an Extension Area Charge (EAC) to help recover the cost of extending natural gas service to the Ogden Valley area. Effectively, the EAC mechanism acts as a loan from the Company to cover the estimated capital costs for utility plant needed to extend service to the community. In order to pay back the loan, an additional monthly fee, the EAC, is added to normal utility service charges (typically GS-1 rates) charged to each individual customer in the community until the estimated utility plant capital costs, with interest, have been repaid to the Company. After its initial use for Ogden Valley, Questar proposed and the Commission approved the EAC approach to extend natural gas service to additional communities. These communities are New Harmony, Panguitch, Oak City, Joseph, Sevier, Fayette, Cedar Fort, Newton, Clarkston, Brian Head, Wales and the areas adjacent to the tap lines used to service each of these communities. Under an EAC regimen, Questar is required to monitor EAC payments received from the customers of each community/area and collect these payments until the loan is paid off. The EACs were calculated using projections of the number of customers and customer growth through a, usually, 15-year term. The EACs include the provision that the EACs may end before or extend beyond the projected payoff date if the aggregate level of customer payments vary from the assumptions used in calculating the EACs; an EAC will end once the principal amount and interest are paid.

THE BEAVER COUNTY COMMISSION COMPLAINT AND EXPANSION TASK FORCE REPORT

In March, 2005, a letter was sent to the Commission from Beaver County complaining of the competitive disadvantage of Beaver County communities (and by extension other rural expansion communities) to attract new industry, where GSS rates or EACs are used, compared to communities served under GS-1 rates. In response to the letter, the Commission directed an investigation of GSS and EAC tariff issues. Participants in that investigation reviewed the development of the GSS rates and the EACs. It was discovered that due to fewer customers signing up for service (compared with the number assumed when the EACs were initially calculated), the EAC term for many of the communities could be longer than the anticipated 15 years (the opposite held for Ogden Valley, more customers had signed up, generating more revenues and shortening the EAC's term). Additionally, it was noted that different interest rate references were used in the development and calculation of the GSS rates and EACs. A proposal was made to alter the EAC interest rate basis to an after-tax rate as in the GSS rate design. This adjustment was approved by the Commission in Docket No. 05-057-13. This adjustment shortened Ogden Valley's payoff from March 2008 to September 2005, and also reduced the expected payoff time of the other EAC communities.

In Docket 05-057-T01, the Commission established a task force to further examine issues regarding expansions of natural gas service into unserved areas. The task force filed a report in August, 2006. A majority of the task force members recommended Questar eliminate all tariff provisions relating to GSS rates and EACs. With the elimination of GSS and EAC tariff provisions, Questar would discontinue charging GSS rates or EACs and it was suggested customers affected by the elimination could be transferred to other service schedules and rates appropriate to their circumstances. The task force members recommended all future service expansions require the up-front payment of the total non-refundable expansion construction charge for expansion into an unserved community. The task force recommendation suggested unserved communities directly fund such payments themselves or obtain assistance for such payments from third-party sources. These recommendations would effectively remove Questar as a source of funding service expansions where the Company anticipates projected revenues would be insufficient to cover the costs of expansion and additional customer payments in aid of construction would be needed to make an expansion financially feasible for the utility.

QUESTAR'S OCTOBER 2006 APPLICATION

Following the task force report, Questar filed an October 6, 2006, Application (Application) to implement the recommendations. The Application requests the Commission to approve a change to Questar's Utah tariff to remove GSS (including IS-4 and ITS) rates and EACs from its tariff and to transfer customers on these rates to the GS-1, I-4 and IT rate schedules. The Application proposes rate increases to other rates, in conjunction with the tariff revision, to make up for the anticipated reduction in revenues resulting from the elimination of future GSS or EAC payments. The Application states the impact of implementing the proposed GS-1 rates will be an increase of $0.19 per month to the typical Utah GS-1 customer's bill. The Application states this equates to an increase of 0.22%, or $2.24, to the typical customer's annual bill. Further, consolidating IS-4 customers into the I-4 rate class results in the DNG rates for this schedule to increase by $0.08236 in Block 1, $0.07428 in Block 2 and $0.06844 in Block 3. The Application equates this to a 56.8% increase to the DNG portion of the I-4 rates.

After the filing of Questar's Application, numerous local and county governments and other interested entities or persons intervened in these proceedings. These include Panguitch City, Beaver City, the Beaver County Economic Development Corporation, the Beaver Valley Hospital, Utah Small Cities, Inc., Garfield County, the Economic Development Corporation of Utah, the Salt Lake Community Action Program, the Town of Cedar Fort, Emery County, Milford City, the Beaver County School District, Beaver County, Carbon County, the City of Enterprise, the Town of Joseph, Fillmore City, and Roger Ball.

In preparation for a hearing on the Application, pre-filed testimony was submitted regarding the merits of the Application and the proposed tariff changes. Written testimony was submitted by Questar, the Division, the Committee, the Salt Lake Community Action Program, Carbon County, Emery County, the Beaver County School District, the Beaver Valley Hospital, and the Beaver County Economic Development Corporation. The Commission also received correspondence and position statements from numerous local governments and individuals. The Commission conducted the hearing on two days. The first, in Salt Lake City, on February 8, 2007, and the second, in Beaver City, on February 15, 2007. During the February 8th portion of the hearing, Questar informed the Commission that Questar, the Division, the Committee and some of the local government representatives had conducted some settlement negotiations and believed they had reached a resolution in principle. These parties indicated they would continue to hold settlement negotiations to finalize their discussions and anticipated they would submit a written stipulation resolving the matter.

THE STIPULATION AND STIPULATION PROCEEDINGS

Questar, the Division, the Committee, the Beaver County Economic Development Corporation, the Beaver County School District, the Beaver Valley Hospital, Beaver County, Emery County, the town of Cedar Fort, Garfield County, Panguitch City, Carbon County, Utah Small Cities, Inc., the Economic Development Corporation of Utah, Delta City, Milford City, Beaver City, Filmore City, the City of Enterprise, and the town of Joseph filed the Stipulation on February 14, 2007. A schedule was set to consider whether the Commission should approve or reject the Stipulation. The Commission required parties to submit pre-filed written testimony regarding the Stipulation by March 14, 2007, and requested position statements or comments on the Stipulation be filed by March 14, 2007, as well. The Commission set March 27, 2007, as a hearing date to receive evidence and argument on whether to accept or reject the Stipulation.

Without intending to change any of the terms of the Stipulation, the Stipulation terms can be summarized by reference to the Stipulation summary testimony of Mr. Robinson.

> 1. The GSS, IS-4, ITS and EAC rate provisions will be removed from the Questar Gas Tariff (Tariff). In turn, the GSS customers will be transferred to the GS-1 rate. The IS-4 customers will be transferred to the I-4 rate and the ITS customers will be transferred to the IT rate. The EAC customers are already on the GS-1 rate and will not be billed the EAC charge in the future.

2. The portions of Section 9.02 of the Tariff relating to "Availability of Service to New Service Extension Areas," "Expiration Dates of Extension Area Rates" and "extension Area Charge and Expiration Date" will be removed. Additionally, the Company has reviewed the entire tariff and removed all references to GSS and EAC rates. Exhibits QGC S1.1 and QGC S1.2 present the proposed tariff changes in legislative and proposed format that would remove these provisions.

3. In the future, communities or areas that are outside the Company's existing service territory will be provided service based on the main and service line extension policies identified in Sections 9.03 and 9.04. If a non-refundable contribution is required in order to extend natural gas service to new communities under the provisions of those sections, the contribution must be paid prior to the extension of service. This may require funding from third party sources.

4. After the GSS and EAC rates are eliminated, the Company will accrue into Account 191.8, the GSS Revenue Account, the estimated revenues from the customers in the GSS and EAC areas that the Company would have collected, over and above the GS-1 revenues. This will be done by identifying the customers in those areas, including future additional customers, and billing the usage from those customers at the GSS and EAC rates. These revenues will be compared with the actual revenues from these same customers under the GS-1 rates. The difference will be accrued into Account 191.8. This accrual will cease after a period of six years from the effective date of the order approving the Stipulation or when new rates are implemented in the next Questar Gas general rate case, whichever comes first.

5. Interest will be calculated on the monthly balance in Account 191.8 at a 6% annual simple interest rate, or 0.5% monthly. This is the same rate approved for the Commodity Balancing Account.

6. The balance in the GSS Revenue Account may not be amortized in rates until after the 1-Year Review Period associated with the Conservation Enabling Tariff (CET) in Docket No. 05-057-T01. After the conclusion of the 1-Year Review Period, any party may request that the balance in the GSS Revenue Account be amortized and included in rates.

7. The entries and the balance in the GSS Revenue Account are subject to audit and review.

8. The Commission may approve a request to amortize the balance in the GSS Revenue Account outside a general rate case.

9. The Commission should issue an accounting order establishing the GSS Revenue Account as described in the GSS/EAC Stipulation. (Stipulation Testimony of Gary Robinson, pages 4-5.)

Questar, the Division, and the Committee provided witnesses and argued in support of the Stipulation. Mr. Ball provided testimony and argument in opposition to the Stipulation. Other entities and individuals provided position statements, comments, letters and public witness comment either in support of or in opposition to Commission approval of the Stipulation. The Salt Lake Community Action Program indicated it neither supported nor opposed the Stipulation. Questar and the Division submitted cross-statements to that of Mr. Ball. The Committee submitted a Pre-hearing Memorandum of Law in Support of the Stipulation.

POSITIONS ON THE STIPULATION

Questar's position and testimony in support of the Stipulation flows from the recommendations made by some of the participants in the August 2006 Report of the Expansion Task Force. The Application directly results from the recommendations and would not otherwise have been filed by the Company. The Company agrees the GSS rates and EACs used to extend new service to unserved communities may be discontinued. This position is based on Questar's conclusion that these charges are no longer just and reasonable for the communities involved. Questar notes the communities at issue in the docket have paid longer than other expansion area communities. Further, their growth rates did not occur at the levels originally projected and expected growth rates are not likely to make up for this lag in the future. Questar views the cross-subsidization resulting from eliminating the GSS rates and EACs as de minimis to the other customers who will be asked to make up for the loss of GSS and EAC based revenues. While GSS and EAC revenues are proposed to eventually be made up from GS-1 customers, Questar states the reduction in IS-4 and ITS revenues (due to the proposed elimination of these schedules) is a sufficiently small amount that the Company agrees to incur this reduction in revenues without a corresponding rate increase. Additionally, Questar states economic development in the expansion areas at issue in this docket has been hindered and the customers in these expansion service territories are charged higher natural gas bills than customers with similar usage in other areas of the Company's service territory.

Like Questar, the Division's support of the terms of the Stipulation generally tracks the Division's participation in and the recommendations made by some members of the Expansion Task Force. The Division believes the expansion communities where GSS rates and EACs prevail have paid a sufficient amount toward the recovery of the additional costs incurred to extend Questar service to them. The Division believes elimination of GSS rates and EACs could remove what economic disadvantages may be caused by their imposition in the expansion areas at issue in this docket. The Division testifies the subsidy that will occur if the Stipulation is approved is similar to the subsidies that were contemplated for natural gas expansion projects undertaken under authority of Utah Code 54-3-8.1.[1] Like the Committee, the Division's initial concerns about the effect of eliminating GSS rates and EACs relative to the Conservation

[1] This code section had its own repeal provisions included in its 1998 enactment and expired on December 31, 1999. When in force, the statute explicitly authorized the Commission to approve natural gas expansions into new areas where they would otherwise not be economic under the Company's applicable tariff provisions (i.e., if they would require additional subsidization from other customers beyond the recovery occurring through the payment of line extension fees and monthly utility service charges [including an EAC] obtained from customers in the new service area) if certain conditions contained in the statute were met. Expansion for a number of the communities at issue in this docket were undertaken under Utah Code 54-3-8.1 authorization and conditions.

Enabling Tariff pilot and outside of a general rate proceeding are addressed by the Stipulation's terms to the Division's satisfaction.

The Committee presents three reasons as support for eliminating current GSS rates and EACs. The Committee first and foremost concludes the charges are no longer just and reasonable because the charges were based on estimated rather than actual extension costs and, in the Committee's view, there is no way of knowing or testing on a cost-of-service basis what these actual costs were. The Committee's second reason is what it calls "disparate rate impacts." With respect to GSS rates, the Committee notes some customers were asked to pay GSS rates for ten years, while others were/are expected to pay these rates for twenty years, although there is no final reconciliation to determine whether the revenues received during these periods match the actual costs of extending plant to provide service to communities where GSS rates are imposed. With respect to EACs, the Committee notes that the payoff periods or end dates for various EACs has changed from those projected when the EACs were originally calculated. Variances in actual versus projected customer growth in an expansion area, where an EAC is charged, result in a change in the time period over which the EAC will be charged to the customers in the new service area. The Committee views these changes in end dates for EACs as inappropriate, disparate rate impacts.

The Committee's third reason is that average cost pricing occurs frequently in regulatory rate setting and rate design and charging customers in the expansion areas at issue in this docket the same rates and charges as other customers would be consistent with this concept of average pricing. Therefore, the Committee argues it is an oversimplification to call the Stipulation's terms a subsidy from urban to rural customers. The Committee further explains that the terms of the Stipulation address many of the concerns raised by the Committee in its previous testimony submitted in response to the Application. Whereas the Committee was originally concerned the Application's requested relief could have permitted Questar to recover foregone GSS and EAC revenues without specific time limitation and would effect rate changes outside of a general rate case, the Stipulation terms address how Questar is to account for these foregone revenues, specifies a time period for their accounting and the mechanisms by which other rates may be altered, all to the satisfaction of the Committee.

The counties, local government entities and the participants in these proceedings who live in the GSS/EAC communities who have filed position statements, letters or comments or have given oral presentations generally indicate GSS rates and EACs place a higher financial burden on them and the other customers in their communities compared to customers in areas where they are not charged. Even though they had hoped the original expansion of natural gas service to their previously unserved communities would provide greater convenience to their inhabitants and prospect for economic development, they note that the relatively higher costs to obtain comparable utility service (in the overall charges they pay) places their communities at a disadvantage for economic development opportunities.

Opposition to approval of the Stipulation is generally couched in terms of fairness or unfairness of some customers receiving subsidies from other customers. Mr. Ball's position and testimony provide a summary of the use of GSS rates and EACs from their initiation to the present. Mr. Ball testifies past Commission decisions relative to expansion costs and their recovery from customers has consistently placed the burden of recovery of the additional capital costs on those customers who have benefitted from the expansion. Mr. Ball argues, in proceedings where these expansions were proposed by Questar and considered by the Commission, the rate design, whether GSS rates or EACs, for recovery of the additional expansion costs and the expected duration of the identified charges were known by all. Mr. Ball observes, with this knowledge, representatives for the communities supported imposition of the charges and parties represented that the communities' customers were desirous to obtain natural gas service even with the additional charges proposed and their expected duration. Customers choose to become customers of Questar knowing the additional charges that would be made and the expected period they would have to pay such charges. Mr. Ball refers to a past Commission docket, No. 97-057-04, wherein the Commission refused to approve an original proposed expansion to the Panguitch City area. Mr. Ball repeats the language used in the Commission's order issued in that docket, which effectively refused to have the general class of GS-1 customers provide any additional recovery for expansion costs which would not be recovered through the use of then prevailing line extension fees and the EAC proposed in that docket. Mr. Ball notes that the expansion into Panguitch (and some of the other communities at issue here) occurred only after the Commission's order in Docket 97-057-04 and enactment of Utah Code 54-3-8.1. Since that code section is no longer in force, Mr. Ball argues the Commission is not able to approve any additional subsidy from GS-1 customers to pay for expansion costs not recovered from customers in expansion areas.

Mr. Ball critiques the economic development argument raised by others. He notes the economic development proponents have not identified any particular occurrence where the charges for natural gas service have hindered an industrial or commercial enterprise's entry into a community. He notes proponents have resorted to generalities without presenting any "hard evidence." Mr. Ball argues it is unfair to require future customers to pay up-front all of the additional estimated capital costs for expansions while customers in the expansion communities at issue in this docket are excused from fully paying costs attributed to their expansions. Other individuals who have submitted opposition comments to the Commission have noted they were required to pay the additional capital costs attributed to extensions of service to them. They object to the disparate treatment that would occur if customers in the communities at issue here are excused from payment responsibility, whereas they complied fully with Questar's tariff provisions and paid the rates and charges demanded.

DISCUSSION AND DECISION

This case reveals the difficulty that is always faced when a regulatory commission is tasked to design and set rates which will allow a utility a reasonable opportunity to recover costs to provide service to customers. Rate setting is a difficult task as effectual lines are inevitably drawn. At times there is no clear demarcation to identify where a line is to be drawn and limited relevant factual evidence is provided to enlighten the deliberations. We hope to apply regulatory principles and policies consistently over time and adequately explain why we make a departure in one instance or modify a prior practice and take up a replacement.

We conclude that we are unable to approve the Stipulation. We are unable to come to the ultimate conclusion reached by the advocates of the Stipulation, that GSS rates and EACs are unjust and unreasonable for the reasons given by the advocates. GSS rates and EACs have been included in recent rate setting proceedings (indeed, from the inception of these charges) without participants in those proceedings intimating there were any problems with these charges nor their underlying rationale. In this case we are not presented with a demonstration of a variance that is ostensibly to be addressed by the proposed remedy, beyond the ultimate conclusion that customers in the expansion areas at issue here are believed to have paid a sufficient portion, whereas past customers have paid through the full term and future customers will have to pay all of the calculated costs prior to an expansion of service.

We observe that in the usual course of rate making, we often use a representation or projected calculation of costs and set rates which are likely to allow the utility to have a reasonable opportunity to recover the costs so calculated. The regulatory course infrequently entails a reconciliation process to review whether revenues received under the rates set match the actual costs and expenses incurred by the utility during a past period. When making the calculation or estimate of costs for which rates or charges are thereafter set, variances from the utility's actual costs do occur. Using a calculation of costs in lieu of actual costs is a routine occurrence when determining costs which rates are intended to recover. For example, development of a future test period, identifying cost-effective demand side management programs, and setting avoided costs for qualifying facilities payments all require some form of estimated costs rather than actual conditions. In determining appropriate telecommunications interconnection costs and charges, we currently employ and have over a decade of experience of estimating costs and setting corresponding charges based on a hypothetical efficient-provider constructed system, which often has little resemblance to the utility and its actual, built utility plant.

We make these points to highlight that rate setting is usually a process of projecting or estimating costs and setting rates thereon. Rates are changed when a better estimate of costs and/or revenues becomes available. For these expansion areas, estimates were made for the capital costs of a minimum system needed to extend utility plant to serve their communities. Based on those estimated costs, a GSS rate or an EAC was set. But no alternative estimate of the additional capital costs attributed for any expansion area has been proffered in this case. There is no contention the original estimates of projected capital costs were incorrect, inflated, or otherwise erroneous, nor have better estimates been made to replace the original estimates. The evidence presented leads to the observation that the original cost estimates were likely understated. If actual costs are the touchstone, costs are higher than those used in setting rates. Questar's evidence indicates it used engineering and cost estimates for a minimum system that could be constructed to extend service and the actual plant installed surpassed the estimated minimum system. When a challenge is made to existing charges based on a balance between costs and revenues, an alternative calculation of the appropriate costs and/or revenues would be a useful tool to help in reviewing whether alternative charges are just and reasonable. This is particularly so when a recommendation is made that some customers must pay all of the costs attributed to them, but others are to be excused from making similar payment. Without a demonstration of a cost or revenue basis for altering charges, we can be asked to do so on some other basis, but the factual evidence may be scarce and its application to the issues to be considered subject to interpretation and dispute. Policy infused arguments are fertile ground where reasonable minds can disagree.

Approval of the Stipulation would entail a variance from cost-causation principles which are used in regulation. Where costs can be attributed to a specific cause, an effort is made to allocate and seek recovery of those costs from the cost-causer. We acknowledge the argument that cost causation principles, if applied to their ultimate end, would lead to a proliferation of multiple rates, up to an individual rate schedule for each individual customer in an attempt to avoid possible cross-subsidization. Here, we must continually strike a balance between cost causation and other regulatory objectives like simple and understandable rates and apply the cost causation principle to the extent we can without compromising the achievement of other ratemaking objectives. The Stipulation advocates' position is that they are asking the Commission to draw the cost causation/subsidization line at a different spot. We are, however, unpersuaded by the advocates' argument and examples given of other customers for whom (in the advocates' view) cost causation principles have been applied more loosely and set a precedent for such here. While some advocates present their examples in an urban–rural dichotomy, others recognize their examples are really the difficulty of applying cost causation principles in relation to new customers vis à vis old customers. In this regard, we conclude that a new customer in the expansion areas at issue here is treated no differently, vis à vis an old customer in an expansion area, than a new customer is treated, vis à vis an old customer, in other areas of Questar's service area. E.g., the line extension allowance provisions are applied no differently in Beaver than they are applied in Ogden. To the extent cost causation principles are difficult to apply at a very discrete level in setting the line allowance, a new Beaver customer is treated similarly to a new Ogden customer.

At the community level, the cost causation and cost allocation effort is also distinguishable. The cost estimates underlying GSS rates and EACs were for unique system extensions designed and built in anticipation to serve the expansion communities. Specific capital costs could and can be calculated and easily allocated to the expansion communities where no prior service or utility plant existed. But for the expansions into each of the expansion areas at issue in this case, there would have been no additional capital costs which would have to be faced and for which GSS rates and EACs were set to recover. This is not the same where new customers arise in an existing service area, where the rate setting process must face allocation issues and attribute cost causation among new customers and old customers, new undepreciated capital assets relative to embedded (and not fully depreciated) utility plant assets, which utility assets are used to serve a particular customer or group of customers and none else, et cetera. The thrust of the advocates' argument is that new customers are likely being subsidized by old customers, but they propose no better rate design for this problem. Noting the difficulties when inter-generational customer cost causation is addressed does not lead us to conclude, as it does the advocates, that we should ignore customer cost causation and cost allocation where it is easy to follow them.

We do not agree that approval of the Stipulation results in a reasonable and appropriate treatment of customers who are in similar circumstances. Customers for whom a GSS rate was imposed for ten years paid rates or charges that were believed to allow recovery of the estimated costs for expansions to serve them. The Stipulation advocates would have future new customers pay in advance all estimated capital costs attributed to expansions made to serve them. However, for the customers in the expansion areas at issue in this case, approval of the Stipulation would result in them paying only a portion of the estimated capital costs attributed to their expansions. We view this as a suspect disparate rate impact. We are unpersuaded on why the middle group is treated differently. The essence of the advocates' position for this is, in their opinion, the middle group has paid long enough or paid enough of their costs, but others must pay all and at once before any expansion is undertaken. We do not find the same comfort as the advocates in expecting future customers in unserved areas to call upon third party resources, to avoid paying costs associated with expanding service to them, but not expecting current expansion community customers to call upon the same resources to avoid paying their expansion costs.

For a time, the Utah Legislature recognized a deviation from regulatory principles similar to what is suggested in the Stipulation. Through statutory enactment, the legislature permitted expansion communities to pay only a portion and not all of the capital costs to extend new service to them. Utah Code 54-3-8.1 was the legislature's effort to strike a specific balance for the Commission to have authority to permit greater subsidization if service charges and EACs were projected to be insufficient to recover expansion costs. For some of the expansion communities at issue here, approval of the Stipulation would upset the balance struck, as the EACs charged in their communities were set under §54-3-8.1 authority. The level and duration of the EACs were set within the parameters established by that statute. The legislature, however, offered this opportunity for a limited time, the statute was repealed. We are unpersuaded by the proponents arguments that we should further extend the offer withdrawn by the legislature or to reconfigure the arrangements that were made pursuant to §54-3-8.1.

Some proponents of the Stipulation, some more strenuously than others, offer an economic development rationale to support approval. We are not convinced this record is one upon which reliance can be placed, if that basis should even be broached. Beyond the assertion, there is no evidence to weigh the import of economic development benefits that might come if the Stipulation were to be implemented. The original expansion of natural gas service into these communities was said to enable future economic development opportunities, even with the GSS rates or EACs to be charged in the communities. Now we are essentially told that view of enabled opportunity was misplaced, or that insufficient opportunity is provided. We are urged to join in the hope that the elimination of GSS rates or EACs will stoke the economic engine for these communities. However, we are provided no principled or quantifiable basis upon which that would be based; nor any basis upon which to apply the rationale in the future. We are sympathetic to these communities' desires for increased economic development opportunity, but setting below-cost prices is not the appropriate answer from utility regulation. If we later find elimination of GSS rates and EACs does not prove to bring forth the economic development hoped for, what future, non-cost based rate adjustment is to be contemplated? Not only for these communities, but any others whose materialized economic growth is less than that which they hope for, and not only for the charges for natural gas service but for any other utility service. What little information exists in the record on the economic development claim is associated with intra-Utah and intra-Questar service territory opportunities. We have no basis or direction, neither from statute nor from the proponents' position, on why economic development opportunity in, for example, Beaver County is to be favored over economic development opportunity in Washington County, or vice versa. We decline to take up a cause where authority to use it is not clear and there is no articulation of the principles or factors to consider in its application among what will necessarily be alternative uses and repeated calls for its use.

We determine that we can not approve the Stipulation on this record. Proponents urge it is a better resolution than continuance of the GSS rates and EACs previously approved by the Commission in prior dockets authorizing service expansions into these unserved areas. While GSS rates or EACs may not be the ultimate paradigm in the rate setting effort, we believe the ultimate paradigm is unattainable. Questar's witness acknowledges the prevailing GSS rate and EACs are just and reasonable. Absent a cost based demonstration showing why or by how much the continued imposition of GSS rates or EACs fail in the intent to recover costs, proponents of the Stipulation present their non-quantifiable based arguments on why Stipulation terms are preferable. In consideration of the reasons for the incurrence of the underlying capital costs, cost causation principles and their application in utility regulation, rate making principles with respect to recovery of identifiable costs which can be attributed to groups of customers, and consistent treatment of customers, we find the present rates and charges a preferred result than that which would arise from implementing the Stipulation.

In addition to contravening such tried and proven rate-making principles such as cost causation and the avoidance of disparate rate impacts, approval of the Stipulation would result in unfairness at many levels. For example, existing expansion area customers would be treated differently than future expansion area customers, GSS and EAC customers in the various cities would receive different levels of debt forgiveness, all ratepayers would see an increase in rates (albeit a small increase) resulting from the cost of services not enjoyed by most of them and some communities that have already received benefits under rates set pursuant to Utah Code 54-3-8.1 would receive additional benefits under the Stipulation.

Notwithstanding the foregoing, we recognize the challenges faced by rural communities to reduce utility charges and to attract new business which could provide benefits to the communities and to the state in general. We also recognize the right of the Company to recover the additional costs of providing services to distant communities. In appreciation of these difficulties, we provide the following possible alternative solutions to those challenges which would neither violate the preferences statute nor offend rate-making principles. This is certainly not a complete list of possible alternatives. One possibility might be essentially “re-financing” the unpaid balances of the estimated extension costs on a community by community basis. By amortizing those balances over a longer period of time, rates could be reduced, thereby mitigating the negative impacts of their rates being higher than in other areas of the state. This approach would also permit the Company to recover it's prudently incurred costs. Another possibility would be to accomplish the same end by looking to third party financing or the creation of special improvement districts. A third possibility would be to approach the Utah Legislature as was done in a similar circumstance when Utah Code 54-3-8.1 was enacted. Economic development in the state is an important issue for both the legislative and executive branches of government. We encourage the parties in this case to pursue these suggestions and/or develop additional alternatives.

ORDER

Wherefore, it is hereby ordered that the request to approve and implement the Stipulation is denied.

DATED at Salt Lake City, Utah this 24th day of April, 2007.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#52884