

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION TO REMOVE GSS AND EAC RATES FROM QUESTAR GAS COMPANY'S TARIFF	Docket No. 06-057-T04
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REBUTTAL TESTIMONY OF
DANIEL E. GIMBLE
FOR
THE
COMMITTEE OF CONSUMER SERVICES

February 2, 2007

1 **Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

2 A: The purpose of my testimony is as follows: (1) to discuss additional
3 information provided by the Company relating to various concerns raised
4 by the Committee in its direct testimony; (2) to respond to certain points
5 raised in the supplemental testimony of Division witness, Mr. Marlin
6 Barrow; and (3) to clarify the Committee's overall recommendations in this
7 case, as well as offering a modified approach that may facilitate a quicker
8 resolution.

9 **Q: PLEASE SUMMARIZE THE COMMITTEE'S RECOMMENTIONS.**

10 A: The Committee continues to believe that a general rate case is the most
11 appropriate venue for resolving the issues relating to the potential
12 elimination of the GSS and EAC rates. Further, using a deferred
13 accounting approach will alleviate concerns about the timing of the next
14 rate case as well as allow for the immediate elimination of the GSS and
15 EAC surcharges.

16

17 Additional Information and Analysis

18 **Q: HAS THE COMMITTEE'S POSITION EVOLVED SINCE THE FILING OF**
19 **DIRECT TESTIMONY?**

20 A.: Yes. Through discovery, the Committee has received additional
21 information on the following issues:

- 22 1) The time period covered by Questar's request.
23 2) The accounting treatment of GSS-EAC revenues.
24 3) The level of recovery from the first wave of GSS customers.

25

26 Based on this additional information, the Committee no longer objects to
27 these aspects of the Company's application.

28

29 **Q: WHAT ADDITIONAL INFORMATION HAS BEEN PRESENTED**
30 **RELATING TO THE TIME PERIOD OF QUESTAR'S REQUEST?**

1 A: In response to CCS DR 3.07, the Company indicated that it only seeks to
2 recover expansion area revenues from GS-1 customers according to the
3 scheduled expiration dates for each GSS-EAC community, 2012-2013 for
4 GSS communities and by 2019 for EAC communities.

5
6 **Q: DOES THIS ALLEVIATE YOUR CONCERNS?**

7 A. Yes. One of the Committee's primary concerns related to Questar's
8 request to include in GS-1 rates, for an indefinite period, the revenue
9 shortfall associated with time-limited GSS and EAC surcharges. The
10 Committee appropriately challenged the Company's proposal because it is
11 at odds with standard ratemaking practices involving time-limited
12 surcharges and would generate a potential windfall for the Company.
13 Although the proposal has not yet been modified to reflect the time limited
14 nature of the rates, the Committee's concerns are alleviated by the
15 Company's response to our data request. It is our understanding the
16 Company will clarify its position on this issue in rebuttal testimony.

17
18 **Q: THE COMPANY TREATED THE REVENUES FROM GSS-EAC**
19 **CUSTOMERS ESSENTIALLY AS A CREDIT AGAINST EXPANSION**
20 **COSTS RATHER THAN AS A OFFSET TO RATE BASE. WHAT**
21 **ADDITIONAL INFORMATION DID YOU RECEIVE REGARDING THE**
22 **ACCOUNTING TREATMENT OF GSS-EAC REVENUES?**

23 A: The Company's response to CCS DR 3.06 states that the accounting
24 treatment should leave GS-1 customers indifferent because the extra
25 revenue from the GSS-EAC customers reduces the amount of revenue
26 that needs to be collected from the GS-1 class and that reducing rate base
27 would have the same effect. The Company also states that this long-
28 standing accounting treatment of GSS-EAC revenues was never
29 challenged by a party in previous GSS-EAC hearings.

30

1 **Q: WHAT ARE THE COMMITTEE'S REVISED VIEWS BASED ON THIS**
2 **ADDITIONAL INFORMATION?**

3 A: The Committee's initial analysis shows that Questar's treatment would not
4 materially impact the revenue figure. We also note that our proposal to
5 examine these issues in a general rate case would permit the Commission
6 to make a final determination on this point.

7
8 **Q: WHAT ADDITIONAL INFORMATION HAVE YOU RECEIVED**
9 **REGARDING THE LEVEL OF RECOVERY FROM THE FIRST WAVE**
10 **OF GSS COMMUNITIES?**

11 A: Based on cost estimates and revenue information provided by the
12 Company and demographic information acquired by the Committee from
13 the Governor's Office of Planning and Budget (GOPB), we were able to
14 perform some limited additional analysis. The results show that the
15 revenue collected by the utility from the first wave of GSS communities
16 appears to be insufficient to cover expansion costs. Nevertheless, the
17 Company adhered to its bargain and moved customers in those
18 communities to the GS-1 rate (or other applicable rate) after 10 years (the
19 change occurred in Summer 1997).

20
21 **Q: DOES THIS RESOLVE THE COMMITTEE'S CONCERNS REGARDING**
22 **POTENTIAL OVER-RECOVERY FROM THESE COMMUNITIES?**

23 A: Yes.

24
25 **Q: DID THE COMMITTEE HAVE ANY ADDITIONAL CONCERNS?**

26 A: Yes. Another concern is related to whether the Company had maintained
27 an accurate accounting record of costs and revenues ascribed to the GSS
28 communities. Stated differently, there is an issue as to whether the
29 claimed \$1.2 million in annual un-recovered GSS costs could be verified.

30

1 Based on the information provided by the Company in response to
2 Committee DRs, we have been unable to verify the accuracy of the \$1.2
3 million figure. However, we recognize that the Company complied with all
4 Commission orders and with generally accepted accounting principles.

5

6 **Q: DOES THIS RESOLVE YOUR CONCERNS?**

7 A: The Committee does not have any outstanding specific concerns, but it
8 reserves the ability to revisit the data if additional issues are raised. Again,
9 the Committee notes that under its proposal for a general rate case, a final
10 determination on these issues could be made at that time.

11

12 Division Testimony

13 **Q: HAVE YOU REVIEWED THE SUPPLEMENTAL TESTIMONY**
14 **PREPARED AND FILED BY DIVISION WITNESS, MR. BARROW, IN**
15 **THIS DOCKET?**

16 A: Yes.

17

18 **Q: ON PAGE 2 OF HIS SUPPLEMENTAL TESTIMONY, LINES 19-22, MR.**
19 **BARROW STATES THAT IN TWO INSTANCES YOU INCORRECTLY**
20 **REFER TO THE \$1.7 MILLION GSS-EAC AMOUNTS AS COSTS**
21 **INSTEAD OF REVENUE PROJECTIONS. PLEASE EXPLAIN YOUR**
22 **REFERENCE TO THE TERM COSTS.**

23 A: Under the Company's proposal the \$1.7 million represents an additional
24 cost for GS-1, I-4 and IT customers because these classes would absorb
25 \$1.7 million of plant costs that were previously allocated to GSS and EAC
26 customers. The level of revenue requirement is unchanged under the
27 Company's proposal; what has changed is a shift in cost responsibility
28 from certain classes to other classes. Therefore, although the \$1.7 million
29 is based on a revenue projection, it is also correctly referred to as a cost
30 from the perspective of certain customer classes.

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1 **Q: ON PAGE 4, LINES 7-16, OF HIS SUPPLEMENTAL TESTIMONY, MR.**
2 **BARROW CHALLENGES YOUR USE OF THE TERM “WINDFALL”.**
3 **DO YOU HAVE ANY RESPONSE TO MR. BARROW’S TESTIMONY?**

4 A: Yes. The GSS and EAC rates were implemented as time-limited
5 surcharges designed to recover the expansion costs associated with
6 extending service to certain rural communities. If GS-1, I-4 and IT
7 customers are asked to cover \$1.7 million in annual revenue shortfall
8 beyond the time when those GSS-EAC tariffs expire, then the potential for
9 a windfall does exist. In its response to CCS DR 3.07, the Company
10 appears to acknowledge the possibility of a windfall if recovery was
11 allowed past the tariff expiration dates and indicates that its intention was
12 not to do so.

13

14 Committee’s Recommendation

15 **Q: IN HIS TESTIMONY, MR. BARROW OFFERS AN ALTERNATIVE**
16 **RECOMMENDATION FOR DEALING WITH THE ANNUAL \$1.7**
17 **MILLION REVENUE SHORTFALL. PLEASE BRIEFLY DESCRIBE**
18 **YOUR UNDERSTANDING OF THE DIVISION’S ALTERNATIVE**
19 **RECOMMENDATION.**

20 A: The Division’s alternative recommendation appears to have three main
21 components: (1) the GSS and EAC tariffs would be immediately
22 eliminated; (2) the annual estimated GSS-EAC revenue shortfall would be
23 tracked in a sub-account of the 191 Account for a period not to exceed six
24 years or until the Company’s next rate case; (3) the \$1.7 million would be
25 included as a debit in the CET account and amortized along with any
26 positive/negative revenue balance. For example, if the Commission
27 issues it’s next general rate case order in May 2008, then the \$1.7 million
28 would only be amortized in the CET up to that time.¹

29

¹ Because customers taking service under the I-4 and IT tariffs are not included in the CET, there is an additional issue of how to handle the approximately \$200,000 of the \$1.7 million total that would be spread to the I-4 and I-T customer classes.

1 **Q: DOES THE COMMITTEE HAVE ANY CONCERNS WITH THE**
2 **DIVISION'S PROPOSAL?**

3 A: Yes. The CET is not our preferred method for addressing the GSS-EAC
4 revenue shortfall for at least two reasons. First, the CET is designed as a
5 revenue stability mechanism to deal with revenue changes stemming from
6 customers practicing conservation and reducing their use of natural gas.
7 Second, the CET is a pilot mechanism. According to the stipulation in the
8 CET docket, parties have an opportunity to present alternatives to the
9 CET later this year and hearings are scheduled to occur in September
10 2007, if there are alternatives for the Commission to consider. Therefore,
11 it would seem inappropriate to include the \$1.7 million in the CET.
12

13 **Q: WHAT ARE THE COMMITTEE'S RECOMMENDATIONS?**

14 A: The Committee continues to recommend that a general rate case is the
15 appropriate venue for addressing the revenue shortfall associated with the
16 elimination of the GSS-EAC rates.
17

18 **Q: DOES THE COMMITTEE HAVE ANY MODIFICATIONS TO ITS**
19 **PROPOSAL TO ADDRESS OTHER CONCERNS THAT HAVE BEEN**
20 **RAISED, SUCH AS THE TIMING OF A GENERAL RATE CASE AND**
21 **THE POTENTIAL FOR MORE IMMEDIATE RELIEF TO THE GSS AND**
22 **EAC CUSTOMERS?**

23 A: Yes. The GSS-EAC rates may be immediately eliminated with the annual
24 \$1.7 million in uncollected GSS-EAC revenues placed into a deferred
25 account. In its next rate case, Questar will be afforded an opportunity to
26 recover the estimated revenue shortfall. A deferred accounting approach
27 also allows the Commission to avoid increasing rates for the majority of
28 the Company's customers based on a change to a single ratemaking item
29 (i.e., a rate design change involving the elimination of the GSS and EAC
30 surcharges).
31

1 **Q: IS THERE ANY PRECEDENT THAT LENDS SUPPORT TO YOUR**
2 **ALTERNATIVE RECOMMENDATION?**

3 A: Yes. In its July 3, 2001 Order regarding the Questar's proposed
4 acquisition of Utah Gas Service Company, the Commission approved a
5 stipulation calling for the higher DNG rates paid by Utah Gas customers to
6 be rolled in the appropriate Questar rate schedules the earlier of six years
7 or Questar's next general rate case. The higher DNG rates paid by those
8 customers were eliminated in Questar's 2002 general rate case. (See
9 Docket Number 01-057-03, In the Matter of the Application of QUESTAR
10 GAS COMPANY for the Authority to Acquire and Certification to Operate
11 Natural Gas Facilities in Utah.)
12

13 **Q: IS THE COMMITTEE'S ALTERNATIVE RECOMMENDATION**
14 **CONSISTENT WITH THE COMMITTEE POSITION THAT YOU SET**
15 **FORTH IN YOUR DIRECT TESTIMONY?**

16 A: Yes. The Committee continues to believe that the GSS and EAC rates
17 may no longer be reasonable and any revenue shortfall should be
18 examined along with all other revenue and cost elements in a general rate
19 case. The Committee's alternative recommendation would eliminate the
20 portions of the Company's tariffs relating to the GSS and EAC rates,
21 thereby addressing the concern that these rates may no longer be just and
22 reasonable. This alternative also allows full consideration of the specific
23 recovery of the remaining revenue shortfall from other customer classes
24 within a general rate case, without specifying the timing of such a case.
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26 **Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

27 A: Yes it does.
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