

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION
TO INCREASE DISTRIBUTION NON-GAS
RATES AND CHARGES AND MAKE
TARIFF MODIFICATIONS

Docket No. 07-057-13

**UPDATED DIRECT TESTIMONY OF GARY ROBINSON
FOR QUESTAR GAS COMPANY**

March 31, 2008

QGC Exhibit 7.0U

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1 I. INTRODUCTION

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

3 A. My name is Gary L. Robinson. My business address is 180 East First South Street, Salt Lake
4 City, Utah.

5 **Q. By whom are you employed and what is your position?**

6 A. I am employed by Questar Gas Company (Questar Gas or Company) as Director of State
7 Regulatory Affairs. I am responsible for state regulatory matters in Utah and Wyoming.

8 **Q. Attached to your written testimony are QGC Exhibits 7.1U through 7.8U. Were
9 these prepared by you or under your direction?**

10 A. Yes.

11 **Q. Have you updated your direct testimony to comply with the Commission's test
12 period order dated February 14, 2008?**

13 A. Yes. My testimony has been updated from my original direct testimony filed on
14 December 19, 2007. I have incorporated the changes necessitated by the test period that
15 was ordered by the Commission on February 14, 2008, and reflected in the updated
16 testimony of Kelly Mendenhall and Steve Bateson. I have added one question and
17 answer to explain a significant change to one of the allocation factors at lines 118
18 through 126. Otherwise, my testimony and exhibits update the values required by the
19 change in test year.

20 **Q. What are your qualifications to testify in this proceeding?**

21 A. I have listed my qualifications in QGC Exhibit 7.1U. This exhibit did not change with this
22 update.

23 **Q. What is the purpose of your testimony in this Docket?**

24 A. . This testimony is being filed to update my original testimony to reflect a 2008 test year. I
25 will update the Company's calculations and recommendations with regard to the class cost-
26 of-service study presented in this case for the 2008 test year. I will discuss proposed rate

27 design changes and applicable tariff changes, including the proposed rate changes for various
28 rate classes of customers.

29 **II. COST-OF-SERVICE AND RATE DESIGN TASK FORCE**

30 **Q. Did the Company prepare a cost-of-service (COS) study in the last general rate case,**
31 **Docket No. 02-057-02?**

32 A. Yes. The Company prepared a COS study in that docket. During the process of that case,
33 the Company met with the Division of Public Utilities, the Committee of Consumer Services,
34 the UAE Intervention Group, the United States Executive Agencies, the Salt Lake
35 Community Action Program, the Crossroads Urban Center, and the Industrial Gas Users
36 Group, and arrived at a stipulation regarding the COS study and the rate design changes to be
37 made in that case. These parties jointly filed the Allocation and Rate-Design Stipulation and
38 Settlement (Rate Design Stipulation).

39 **Q. Did the Rate Design Stipulation allocate costs to the various rate classes strictly as**
40 **they were calculated in the COS study in that case?**

41 A. No. There were adjustments made to the allocations that were agreed to by all parties that
42 participated in the Rate Design Stipulation, and the final stipulated allocations varied from
43 the COS study results. For example, there were some adjustments to mitigate the full impact
44 of the COS results to some rate classes. These adjustments were justified on the basis of
45 moving closer to the fully allocated COS but not moving the entire way in one case.

46 **A. *Rate Design Stipulation and Task Forces***

47 **Q. Did the Rate Design Stipulation also request a task force study?**

48 A. Yes. The Rate Design Stipulation specifically requested that “the issues raised by various
49 Parties be the subject of further study and consideration by a collaborative task force.” As a
50 result of this request, the Commission created the Allocation and Rate-Design Task Force
51 (Task Force). See the Report and Order in Docket No. 02-057-02 (2002 Order), page 40. In
52 the 2002 Order the Commission stated that “the goal of the Task Force is to analyze a variety
53 of rate-design and cost-allocation issues that have arisen in this case and attempt to agree on

54 how to resolve these issues for possible application in future proceedings.” The topics
55 requested to be studied by the task force and which are being addressed in this case are:

- 56 1. **A class COS study, including allocation factors.** The Company reviewed
57 the COS methodology used in this case with the Task Force during several
58 meetings. I will be presenting the COS later in this testimony. Some of the
59 allocation factors will be explained in this testimony, and the others will be
60 discussed by Mr. Bateson in his direct testimony.
- 61 2. **The value of peaking gas available from interruptible customers during**
62 **periods of interruption.** An estimated value of peaking gas available from
63 interruptible sales and transportation customers has been made and included
64 in the COS presented later in this testimony.
- 65 3. **Separation of the residential and commercial customers in the GS-1 class**
66 **into separate classes.** In response to the discussions in the Task Force
67 regarding the GS-1 rate class, the Company has separated the residential and
68 commercial customers into separate rate classes. This will be discussed in
69 more detail later in this testimony.
- 70 4. **Modification of the GS-1 rate design.** The current GS-1 rate schedule
71 consists of two blocks with a declining rate structure and with a
72 summer/winter differential. The Company is proposing to continue the
73 summer/winter differential on both the residential and commercial rate
74 schedules. It is being proposed that the residential rate schedule will consist
75 of a single, flat rate structure and that the commercial rate schedule will
76 consist of three blocks with a declining rate structure. This will also be
77 discussed later in this testimony.
- 78 5. **The amount of the basic service fee (BSF).** Mr. Bateson will discuss the
79 Company’s proposed changes to the BSF in his direct testimony.
- 80 6. **Transportation rate design, including transportation service for smaller**
81 **customers and the amount and applicability of administrative fees,**
82 **criteria for qualification and demand charges for transportation service.**
83 Mr. Bateson will also discuss in his testimony the Company’s proposal to

84 reduce the transportation administrative fee, which will make the
85 transportation service available to smaller customers and the proposed
86 demand charges for transportation customers that request firm service.

87 7. **The DNG summer/winter rate differential.** The summer/winter
88 differential is proposed to be increased in accordance with the results from
89 the COS.

90 **Q. Did you participate in the Task Force?**

91 A. Yes. I was one of the Company representatives to the Task Force and participated
92 throughout the period that the Task Force met.

93 **Q. Were all the specified issues addressed in the Task Force and have the views of the**
94 **Task Force been implemented in the proposed COS?**

95 A. The Task Force addressed all of the topics specified in the Commission Order but did not
96 reach total agreement on all topics. Although the Task Force did not come to complete
97 agreement on the various issues it was asked to review, there were no disagreements by the
98 Task Force members on the basic methodology that the Company presented.

99 **III. COST-OF-SERVICE METHODOLOGY**

100 **Q. Is the COS study you are presenting in this case consistent with what was presented**
101 **to and reviewed by the Task Force?**

102 A. Yes. The structure of the COS, the allocation factors and the computer model used in this
103 case are the same, with some minor modifications, as to the model and factors presented to
104 the Task Force.

105 **Q. Will you please review the methodology used in the COS study?**

106 A. The COS study allocates the rate base, expense and revenue data from FERC Accounts to the
107 various rate schedules. The revenues and some expenses and rate-base accounts can be
108 directly assigned to the rate schedules. Other rate base and expenses are allocated based on
109 the various allocation factors that are explained in more detail below. The detail to the COS
110 study is presented in response to Master Data Request A, question 6 (Updated).

111 **IV. COST-OF-SERVICE ALLOCATION FACTORS**

112 **Q. Please describe the allocation factors used in the COS study?**

113 A. QGC Exhibit 7.2U lists the allocation factors used in the study and provides a description
114 and brief discussion of why each factor is used. This exhibit did not change with this update.
115 QGC Exhibit 7.3U shows the values for each allocation factor. The COS model is included
116 in the revenue-requirement model, which has been provided to all parties in this case, in
117 conjunction with filing this updated testimony. . The Company is available to discuss and
118 review the model with any party in this case at the Company's offices.

119 **Q. Are there any significant changes to the allocation factors presented in QGC Exhibit**
120 **7.3U when compared to those in the original QGC Exhibit 7.3?**

121 A. Yes. There is a significant change to the throughput allocation factor shown in QGC Exhibit
122 7.3U on line 8. In preparing the updated allocation factors I discovered that some of the
123 transportation volumes in the TS rate schedule were not being included in total throughput
124 used to calculate the hroughput allocation factor. This has been corrected in QGC Exhibit
125 7.3U. The result of correcting this error is that more costs will be allocated to the TS rate
126 schedule when compared to the cost of service included in the original filing in this docket
127 and the proposed rates for this schedule will increase accordingly.

128 **V. COST-OF-SERVICE RESULTS**

129 **Q. Have you prepared a summary of the COS results?**

130 A. Yes. QGC Exhibit 7.4U shows the summary of the results of the COS study. Column B,
131 lines 1 through 46, on page 1 of the exhibit comes directly from Column F of QGC Exhibit
132 6.2U, attached to Mr. Mendenhall's updated direct testimony. The deficiency shown on
133 Column B, line 50 of QGC Exhibit 7.4U comes from Column G, line 3 of QGC Exhibit
134 6.2U. The amounts in Column B of the exhibit are then allocated by account to the various
135 rate classes using the allocation factors explained previously. Line 52 of the exhibit shows
136 the total COS in Column B and the COS for each rate schedule in Columns C through G.

137 **Q. On line 51 of QGC Exhibit 7.4U you have made a "Gradualism Adjustment."**

138 **Would you please explain what this is and why it is included?**

139 A. For many years the residential and small commercial customers have been served in
140 accordance with the GS-1 rate schedule. This rate schedule consisted of two blocks, 1) the
141 first 45 Dth used in a month, and 2) all the usage in the month over 45 Dth. Almost all of the
142 residential customers and the smaller commercial customers were billed at only the first
143 block of this rate schedule. The larger commercial customers exceeded 45 Dth per month
144 and were billed a lower rate for that usage. A full COS has not been used to establish the
145 GS-1 rates for many years. When the two classes were separated in this case and a COS was
146 performed for each class separately, it was determined that the commercial class, given the
147 cost allocations, could receive an overall decrease in this case while the increase to the
148 residential class would be about double the average overall increase. What this indicates is
149 that the second block of the GS-1 rate was higher than could be justified by the COS and
150 those customers getting charged at the first block rate have been the beneficiaries of an intra-
151 class subsidy from the customers getting charged at the second block rate. The Company is
152 proposing in this case that the rates for the GSC class not be calculated at the full COS, but
153 that the difference between the rates currently charged the commercial customers and the
154 COS be eliminated gradually over more than one rate case. In order to move about one
155 quarter of the way to full COS, the Company has included the gradualism adjustment that
156 transfers \$7,500,000 or 4% of costs from the GSR class to the GSC class. This concept of
157 gradualism in moving from current rates to full COS rates, is one that the Commission has
158 agreed with in the past, as recently as in Docket No. 02-057-02, the Company's latest general
159 rate case. Line 4 on page 2 of QGC Exhibit 7.4U shows the approximate percentage increase
160 being calculated for each rate schedule in the COS. As can be seen, with the gradualism
161 adjustment of \$7,500,000, the GSC class receives a percentage increase about 40% less than
162 that received by the GSR class.

163 **Q. Has the Company proposed any gradualism adjustments for the interruptible sales**
164 **or transportation rate classes?**

165 A. Not at this time.

166 *A. Rate Classes Not Included In Cost-of-Service Study*

167 **Q. Have costs been allocated to all rate schedules in the Tariff individually?**

168 A. No. The GSS, MT, NGV, FT-1 and FT-2 Special Contract (FT-2C) rate schedules have not
169 been included in the COS study and the revenues from these classes are treated as credits to
170 the COS and allocated to the other rate classes. (For a definition of these rate class names,
171 please refer to Table 1 shown on pages 7 and 8 of this testimony.) This, in effect, reduces the
172 revenue requirement for those other rate classes and is consistent with how they have been
173 treated in past Questar Gas general rate cases.

174 **Q. How will the rates for these rate classes be calculated in this case?**

175 A. The Company proposes that the rates for the GSS rate schedule be calculated by maintaining
176 the double margin rates relative to the GSR rate schedule, and that the NGV, FT-1 and MT
177 rate schedules be calculated by applying the average overall percentage change to the COS to
178 the revenues being collected from these classes. The FT-2C is a special contract that came to
179 the Company with the purchase of the Utah Gas system in 2001. These contract rates will
180 remain the same until the terms of the FT-2C special contract expire.

181 **VI. PROPOSED CHANGES TO CURRENT RATE SCHEDULES**

182 **A. Rate Class Naming Convention**

183 **Q. Are you proposing to change the names of some rate classes?**

184 A. Yes. The naming convention the Company has been using for many years does not always
185 describe the current customers in the rate class and is out of date. For example, the Tariff
186 includes an I-4 rate class, but the I-1, I-2 and I-3 rate classes, which used to be in the Tariff,
187 have been removed. The names of the rate schedules do not affect the qualifications or other
188 tariff provisions of the various rate schedules. However, in renaming the rate schedules, the
189 Company is proposing to make the names more consistent and representative of the service
190 being provided.

191 **Q. Please summarize what the Company is proposing regarding naming of the rate
192 schedules?**

193 A. The following table shows the current rate schedules included in the Questar Gas Company
194 Tariff, PSCU No. 400 (Tariff) and the Company's proposal to rename or eliminate the
195 schedules in this case.

197

Table 1	
Rate Schedules in Questar Gas Company Utah Tariff	
Current	Proposed
GS-1 (General Service #1)	GSR (General Service Residential)
	GSC (General Service Commercial)
GSS (General Service South)	GSE (General Service Expansion)
F-1 (Firm Service #1)	FS (Firm Service)
F-3 (Firm Service #3)	Eliminated
F-4 (Firm Service #4)	Eliminated
NGV (Natural Gas Vehicles)	NGV (Natural Gas Vehicles)
I-4 (Interruptible Sales #4)	IS (Interruptible Service)
IS-4 (Interruptible South Sales #4)	ISE (Interruptible Service Expansion)
MT (Municipal Transportation)	MT (Municipal Transportation)
FT-1 (Firm Transportation #1)	FT (Firm Transportation)
FT-2 (Firm Transportation #2)	TS (Transportation Service)
IT (Interruptible Transportation)	
IT-S (Interruptible Transportation South)	TSE (Transportation Service Expansion)
E-1 (Emergency #1)	ES (Emergency Service)
T-1 (Temporary #1)	Eliminated

198

199

B. Split of GS-1 Class Into Residential and Commercial

200 **Q. Did the Task Force make any recommendations regarding separating the GS-1 rate**
201 **schedule into residential and commercial sectors?**

202 **A.** The Task Force spent a significant amount of time reviewing this issue, however, there was
203 no consensus.

204 **Q. Has the Company proposed they be separated in this case?**

205 A. Yes, as can be seen in QGC Exhibits 7.3U and 7.4U, the Company has separated the
206 residential and commercial customers into the GSR and GSC rate schedules and calculated a
207 COS for each class of customers separately.

208 **Q. What was the basis for separating the GS-1 class into residential and commercial**
209 **customers?**

210 A. The state of Utah has established separate sales tax rates for residential and commercial
211 customers as is shown in Section 10.01 of the Tariff. The sales tax rates vary by county, and,
212 in some circumstances, by city within a county. For the Company to calculate the proper
213 sales taxes from the customers it serves, every GS customer has been classified in the billing
214 system as either a residential or commercial customer. The GS-1 class was separated into the
215 GSR and GSC classes based on this sales-tax classification.

216

217 **Q. Are the customers in the GSC class smaller or larger than the GSR customers?**

218 A. There are both larger and smaller GSC customers. The commercial class of customers is a
219 much more diverse group than the residential group. The variation in residential customers is
220 based mostly on the size of the residence. Almost all of the residential customers have space
221 and water heating appliances and a significant portion have additional appliances for clothes
222 drying and cooking. On average, the residential customer class is a homogenous group. The
223 commercial customers, however, vary from small retail establishments, which may have only
224 space heating, similar to a residential customer, to large hotels, malls, schools or restaurants,
225 having significant natural gas requirements for space heating, heating pools or cooking.
226 Because the small commercial customers are very similar to the residential customers in their
227 usage patterns and uses of natural gas, the Company is proposing that the first block of the
228 GSC rate schedule be the same rate as the GSR rate schedule. This will be discussed further
229 in the rate design portion of this testimony.

230

C. *Changes to the GSC and F-1 Schedules*

231 **Q. Has the Company proposed any changes to the classification or provisions for the**
232 **GSC and F-1 rate schedules?**

233 A. Yes. In the past, the GS-1 rate schedule was designed for residential and small commercial
234 customers with generally low load factors. One of the limitations of being on the GS-1
235 schedule has been a maximum daily use of 1,250 Dth. This limitation has kept very large
236 customers off this rate schedule. For customers to receive service on the F-1 rate schedule,
237 they have been required to have a 40% load factor and a maximum daily usage of 1,250 Dth
238 or less. The F-4 rate schedule is the only other firm-sales rate that has been available to
239 Questar Gas customers, and it was designed for large industrial customers. To qualify for the
240 F-4 rate, a customer has been required to have a load factor of at least 80% and pay a
241 minimum annual DNG charge of \$38,700.

242 The effect of these limitations is that a customer who has a maximum daily use greater than
243 1,250 Dth and a load factor less than 80%, has not qualified for firm sales service. To
244 receive firm service from Questar Gas, such a customer needed to qualify for firm
245 transportation service on either the FT-1 or FT-2 rate schedules. The FT-2 rate schedule
246 requires a load factor of at least 50%, includes an annual administrative fee of \$6,800 and has
247 a minimum annual DNG charge of \$23,200. The FT-1 schedule has an annual minimum
248 usage requirement of 100,000 Dth as well as the administrative fee of \$6,800.

249 The Company has received some requests for firm service from customers that fall in the
250 gaps between these firm-service schedules. In order to remedy this situation, the Company
251 proposes to raise the maximum daily usage limit of 1,250 Dth on the GSC and F-1 rate
252 schedules to 2,500 Dth per day, while maintaining the 40% load factor requirement for the
253 F-1 schedule. In the Company's experience, a customer with demand requirements
254 approaching 2,500 Dth per day will naturally migrate to transportation service. The
255 Company currently has no firm sales customers that require a maximum daily usage
256 approaching 2,500 Dth.

257 ***D. Elimination of the F-3 Schedule***

258 **Q. What is the Company proposing with regard to the F-3 rate schedule?**

259 A. The F-3 schedule is currently used for interruptible sales and transportation customers to buy
260 firm standby service on Questar Gas' distribution system. With the proposed changes to the

261 transportation schedules discussed later in this testimony, the need for transportation
262 customers to use the F-3 schedule will be eliminated. In addition to the F-3 schedule, Tariff
263 Section 8.01 currently allows sales customers to “ribbon” usage between two different rate
264 schedules for usage on the same meter. For example some I-4 customers contract for standby
265 firm service on the F-3 schedule, while others have chosen to have a contracted level of
266 service each month billed at the F-1 rate, while all additional usage through that meter during
267 the month is billed at the I-4 rate. By eliminating the F-3 schedule, the IS customers that
268 currently use the F-3 for firm standby will need to contract for a level of “ribboned” firm
269 service on the new FS or GSC rate schedules.

270 *E. Elimination of the F-4 Schedule*

271 **Q. What is the Company proposing with regard to the F-4 rate schedule?**

272 A. The F-4 rate schedule is a little-used industrial-firm-sales rate schedule. Since the
273 introduction of transportation service, few customers have requested service on the F-4 rate.
274 Currently the Company has one customer on this rate schedule. The current F-4 customer
275 uses the allowance to ribbon usage between rates and has the first 1,000 Dth usage per day
276 billed at the F-4 rate and the remainder of the usage in any given day on the Interruptible
277 Transportation (IT) rate schedule. The Company is proposing to charge transportation
278 customers directly for their firm demands on a new Transportation Service (TS) rate
279 schedule. As a result, transportation customers will not be allowed to ribbon usage between
280 a firm sales rate and the TS rate. This will eliminate the need for the F-4 rate schedule.
281 Therefore, the Company is proposing to eliminate the F-4 rate from the Tariff. The
282 allowance for sales customers to ribbon their usage is being left in Section 8.01 of the Tariff.
283 If the existing F-4 customer desired, it could ribbon its usage on the proposed IS and the FS
284 or GSC rate schedules instead of remaining a transportation customer.

285 *F. Changes to Interruptible Sales Schedules*

286 **Q. Did the Task Force review the Company’s transportation rate schedules with regard
287 to designing a small-transportation rate schedule?**

288 A. Yes. However, all Task Force parties did not agree on the best way to design a schedule.

289 **Q. Has the Company proposed a small-transportation rate in this case?**

290 A. Not explicitly. However the Company is proposing changes to the transportation
291 administrative fee (Admin Fee) that will allow smaller customers to move to transportation
292 service if they so choose. Mr. Bateson will discuss the Admin Fee in more detail, but in
293 summary, the Company is proposing to reduce the primary fee charged to the first
294 transportation delivery point on the Questar Gas distribution system from \$6,800 per year to
295 \$4,500 per year. The secondary Admin Fee, charged to all other transportation delivery
296 points by a single organization, is proposed to be reduced to \$2,250, from the current \$2,550.

297 The customers who would most likely make use of such a transportation schedule are the
298 current interruptible sales customers on the I-4 and IS-4 schedules and some of the larger
299 firm sales customers on the F-1 schedule. The Company contacted some of these customers
300 to determine the level of interest in a small transportation rate and found little interest. To
301 the contrary, some of these customers indicated that they are much more comfortable with
302 the current sales options in which they do not have to worry about arranging for their own
303 gas supplies and making nominations to the Company for their daily usage.

304 **Q. Has the Company proposed any changes to the current I-4 and IS-4 rate schedules?**

305 A. Yes. The Company is proposing to change the block breaks for these schedules. The current
306 block structure is as follows: Block 1: the first 875 Dth; Block 2: the next 121,625 Dth; and
307 Block 3: all over 122,500 Dth. This block structure has been in place for many years and
308 was established when the size and nature of the interruptible sales class included many of the
309 customers that are now transporting on the Questar Gas system. Given the current I-4
310 customers, these blocks do not make much sense. Almost all customers go through the first
311 block every month, and no current I-4 customer goes all the way through the second block.
312 To make the blocks more meaningful, and to have the rates follow the cost curves more
313 closely (this will be discussed in more detail later in this testimony), the proposed blocks are
314 as follows: Block 1: the first 2,000 Dth; Block 2: the next 18,000 Dth; and Block 3: all over
315 20,000 Dth.

316 **G. *Changes to the Transportation Rate Schedules***

317 **Q. Has the Company proposed any changes to the transportation rate schedules?**

318 A. Yes. Currently transportation customers must select between interruptible and firm
319 transportation service on the IT and FT-2 rate schedules. In this case, the Company is
320 proposing to restructure the transportation service rate schedules. Instead of having to select
321 whether to transport all of their gas supplies on firm or interruptible schedules, transportation
322 customers will be able to transport their gas supplies on the TS rate schedule, on an
323 interruptible basis, and contract specifically for a level of firm service. By separating the
324 firm demand charges from the interruptible transportation charges, customers can be billed
325 more accurately for the services they actually need and they will have more flexibility in
326 contracting for service. In addition, the Company will be better able to manage the design
327 and operation of the distribution system because customers will contract specifically for the
328 level of firm daily service they really need.

329 **Q. How have the demand charges on the new TS and TSE schedule been calculated?**

330 A. Mr. Bateson will discuss the calculations of these charges in his testimony.

331 **Q. Will transportation customers continue to pay an Admin Fee?**

332 A. Yes. However, as I have just explained, the Company is proposing to reduce the charge to
333 \$4,500 per year, down from the \$6,800 that was stipulated to in Docket No. 02-057-02.
334 Customers with more than one end-use site will be billed \$2,250, down from the current
335 \$2,550, for each additional site.

336 **Q. Has the Company updated the support for the Admin Fee?**

337 A. Yes. Mr. Bateson is providing the support for this fee in his direct testimony.

338 **Q. Will the restructuring of the transportation rate schedules cause some customers to
339 want to change the rate they are on?**

340 A. It is likely the changes proposed by the Company in this case will cause some customers to
341 want to change rate schedules. During the months this case is being considered by the
342 Commission, it is important for customers to consider which rate schedules they want to
343 utilize and the level of firm demand for which they want to contract. This will allow the

344 Company to design the rates for the number of customers that will be on those rate schedules
345 during the rate-effective period. The Company will coordinate with its large commercial and
346 industrial customers to make them aware of these proposed changes and help each determine
347 its appropriate rate schedule prior to the end of this case so that when the Commission's final
348 decision regarding the revenue-requirement portion of this case is complete, the Company
349 can design rates to reflect the expected usage in each rate schedule on a going-forward basis.

350 **Q. Are customers free to switch between sales and transportation and between**
351 **interruptible and firm sales service at any time?**

352 A. No. Large commercial and industrial customers generally sign up for service on Questar
353 Gas' system on an annual basis, from July to June each year. Knowing what rate schedules
354 customers will be served on during the heating season is critical as the Company plans and
355 procures sufficient gas supplies to serve the customers. For example, if interruptible sales or
356 transportation customers are allowed to move to firm service during the middle of the heating
357 season, the gas supplies that have already been contracted for during the heating season may
358 not be sufficient to serve the firm demand during a peak-day, or even during periods of
359 normal weather during the heating season. If this were the case, the Company would have to
360 increase its winter delivery capacity by purchasing high-priced peaking gas. This would
361 increase gas costs to all customers. The Company proposes that customers who want to
362 change rate schedules must notify the Company by at least March 1 of each year and the
363 change would be effective on July 1 of that year for a one-year period. The tariff sheets
364 showing the proposed rate changes needed to implement this proposal will be updated when
365 Mr. Bakker files rebuttal testimony and updates QGC Exhibit 9.5U.

366 **Q. Are there any additional requirements for customers who want to transfer from**
367 **interruptible sales or transportation service to firm sales service?**

368 A. Yes. The gas-cost rate for customers on firm-sales service includes the amortization of
369 balances in the gas-balancing account (Account 191). Customers' shifting rate schedules
370 could potentially transfer to firm-sales service while building up an under-collection in the
371 gas-balancing account and then transfer back to interruptible sales or transportation and avoid
372 paying the amortization of the balance. To offset this scenario, the Company has been

373 requiring customers who transfer to firm sales service to remain there for at least two years.
374 This has been done through contracts. To be consistent with this practice, customers moving
375 from transportation or interruptible sales to firm sales service will now be required by Tariff
376 to stay on the firm rate schedule for at least two years. Thereafter, they can switch back to
377 transportation service by requesting a change by March 1 of any given year, with the change
378 effective during July of that same year.

379 VII. RATE DESIGN

380 **Q. What were the guiding principles the Company used in preparing the proposed rate**
381 **design?**

382 A. During the Task Force meetings, the Company made a presentation, outlining the basic
383 concepts of COS and rate design and the various tools available when designing rates.
384 Included was a list of ten criteria of a sound rate structure taken from the book “Principles of
385 Public Utility Rates” by James C. Bonbright, Albert L. Danielsen and David R. Kamerschen
386 (Second Edition, March 1988). The ten criteria, or attributes, are jointly referred to as the
387 “Bonbright Principles” and are a list of sometimes conflicting criteria that must be balanced
388 in order to arrive at the most fair and acceptable cost allocation and rate design. The Task
389 Force discussed these principles in detail. The Company has attempted to take into
390 consideration the Bonbright Principles when designing the COS and rate design in this case.
391 Shown in Table 2 is the list quoted from pages 383-384 of the book:

392 **Table 2**
393 **Bonbright Principles**

- 394
- 395 1. Effectiveness in yielding total revenue requirements under the fair-return standard
396 without any socially undesirable expansion of the rate base or socially undesirable
397 level of product quality and safety.
 - 398
 - 399 2. Revenue stability and predictability, with a minimum of unexpected changes
400 seriously adverse to utility companies.
 - 401
 - 402 3. Stability and predictability of the rates themselves, with a minimum of unexpected
403 changes seriously adverse to rate-payers and with a sense of historical continuity.
404 (Compare “The best tax is an old tax.”)
 - 405
 - 406 4. Static efficiency of the rate classes and rate blocks in discouraging wasteful use of

407 service while promoting all justified types and amounts of use:
408 (a) in the control of the total amounts of service supplied by the company;
409 (b) in the control of the relative uses of alternative types of service by
410 ratepayers (on-peak versus off-peak service or higher quality versus lower
411 quality service).

412
413 5. Reflection of all of the present and future private and social costs and benefits
414 occasioned by a service's provision (i.e., all internalities and externalities).

415
416 6. Fairness of the specific rates in the apportionment of total costs of service among
417 the different ratepayers so as to avoid arbitrariness and capriciousness and to
418 attain equity in three dimensions: (1) *horizontal* (i.e., equals treated equally); (2)
419 *vertical* (i.e., unequals treated unequally); and (3) *anonymous* (i.e., no ratepayer's
420 demands can be diverted away uneconomically from an incumbent by a potential
421 entrant).

422
423 7. Avoidance of undue discrimination in rate relationships so as to be, if possible,
424 compensatory (i.e., subsidy free with no inter-customer burdens).

425
426 8. Dynamic efficiency in promoting innovation and responding economically to
427 changing demand and supply patterns.

428
429 9. The related, practical attributes of simplicity, certainty, convenience of payment,
430 economy in collection, understandability, public acceptability, and feasibility of
431 application.

432
433 10. Freedom from controversies as to proper interpretation.

434 Professor Bonbright specifically mentions in the book that the "sequence in which the ten
435 attributes are presented is not meant to suggest any order of importance." As I mentioned, in
436 some instances, the principles are conflicting. For example, the third principle relates to
437 designing rates that are simple, that customers can understand and accept, and that the
438 Company can administer efficiently. This principle is often in conflict with the sixth
439 principle that relates to a COS and rate design that is fair to the various types and sizes of
440 customers. In order to follow the sixth principle exactly, the Company would need a
441 multitude of rate schedules, fees and rates, which would be very complicated and difficult to
442 administer and explain to customers. In such instances, the Company has weighed the
443 various principles and struck a balance among them.

444 **Q. Have you calculated the proposed rates that correspond to the revenue requirement**
445 **calculated by Mr. Mendenhall and the COS you presented earlier in this testimony?**

446 A. Yes, a summary of the proposed rates, changes to block structures, and rates are shown in
447 QGC Exhibit 7.5U. These rates will be shown in Mr. Bakker's updated QGC Exhibit 9.5.
448 The rate design model used to calculate these rates has been provided to all parties in this
449 case as part of the filing and in response to Master Data Request A, question 7 (Updated).
450 The Company proposes the Commission schedule a technical conference to discuss, review,
451 and explain the model and cost curves.

452 **Q. Will you please explain the methodology used to design the proposed rates?**

453 A. The first step in the rate design process is to categorize the components of the COS (O&M
454 expenses, depreciation, taxes, and return on rate base) into functional categories. The four
455 categories are as follows:

- 456 1. **Customer Related:** Those costs that are driven by the number of
457 customers served.
- 458 2. **Network Related:** Those costs that are driven by the distribution network
459 required to serve customers.
- 460 3. **Dth Throughput Related:** Those costs that are driven by the amount of
461 natural gas that flows through the distribution system.
- 462 4. **Demand Related:** Those costs that are driven by the peak-day
463 requirements to serve firm customers.

464 **A. *Development of Cost Curves by Rate Schedule***

465 **Q. What is the next step in the process?**

466 A. The next step in the process is to develop an equation using the categorized costs that can be
467 applied to the projected customers, usage and meter categories to determine the cost per Dth
468 in each rate schedule at a continuum of usage levels. These costs per Dth are graphed to
469 illustrate the cost curve for each rate schedule. Rates are then designed, including fixed
470 charges, volumetric rates, declining block rate structures and minimum bills, to have the
471 revenue collected per Dth follow the cost per Dth as closely as possible. This process is
472 explained in more detail later in this testimony. QGC Exhibit 7.6U shows the cost curves for

473 the GSR, GSC, IS, FS and TS rate schedules and the revenue per Dth collected from the
474 proposed rates. As can be seen from the GSR graph, the use of a single block, flat rate makes
475 the job of designing rates to follow the cost curve impossible. Because the costs associated
476 with providing service to a customer (main, service line, meter and regulator costs) are fixed
477 in nature over a fairly broad range (i.e., most residential customers, regardless of their size,
478 have the same size of service line, meter and regulator), larger customers have more Dth to
479 spread those fixed costs over and, as a result, have a lower cost per Dth. The use of a flat
480 rate design does not take this into account, and results in high usage residential customers
481 generally paying more than their calculated cost per Dth and low usage residential customers
482 generally paying less than their calculated cost per Dth. However, there are reasons for
483 implementing a flat rate design that justify its use even though the revenues do not follow the
484 cost curve exactly. For example, following the fourth and eighth Bonbright Principles, the
485 use of a flat rate design is much easier for customers to understand, and it encourages energy
486 conservation and efficiency.

487 **B. *Determination of the Number of Blocks and the Size of Blocks by Rate Schedule***

488 **Q. Is the Company proposing any changes to the block structure of the rate schedules?**

489 A. Yes. As has already been briefly discussed, the GSR, GSC and IS block structures will be
490 different than the previous GS-1 and I-4 block structures. QGC Exhibit 7.5U provides a
491 summary of the previous block structure by rate schedule and the proposed block structures.

492 **Q. What is the basis for proposing the new block structures?**

493 A. The goal of establishing block rates is to calculate rates that follow the cost curves as closely
494 as possible, without creating overly complicated rate structures. There has been an effort to
495 standardize the block breaks throughout the rate schedules to be more consistent. Customers
496 move from one schedule to another schedule for many reasons and the Company is proposing
497 that the block breaks be consistent for such customers regardless of which schedule they are
498 on.

499 **Q. Have you proposed a different block structure for the GSR rate class?**

500 A. Yes. The block structure used for the GS-1 class for many years has been designed with two
501 blocks. The first block consisted of the first 45 Dth used in any month. The second block

502 was all usage in a month that exceeded 45 Dth. Few residential customers ever exceeded the
503 first block and, therefore, the second block was designed primarily for the commercial
504 customers in the GS-1 rate class. For the GSR rate schedule, the Company is now proposing
505 to design a one-block, flat rate for all usage in a month. This method of rate design is much
506 easier for residential customers to understand and has the added benefit of helping to
507 promote energy efficiency by sending a consistent price signal for all the gas used on the
508 GSR rate.

509 **Q. Are there differences in the billing components of large GSR customers compared to**
510 **the smaller GSR customers?**

511 A. Yes. As explained by Mr. Bateson, large residential customers that require meters with more
512 capacity than a regular residential meter will pay a larger BSF amount.

513 **Q. Have you proposed a different block structure for the GSC rate class?**

514 A. Yes. The current GS-1 rate class has two blocks consisting of the first 45 Dth for the first
515 block and all over 45 Dth for the second block. The Company is now proposing to stop the
516 second block at 200 Dth per month and include a third block for all usage over 200 Dth per
517 month. This is being done to make the GSC block structure consistent with the FS rate
518 schedule. Some customers will be required to move from the GSC to the FS rate schedules,
519 and vice-versa, because of the 40% load factor requirement on the FS schedule. The
520 inclusion of the third block in the GSC schedule makes moving from schedule to schedule
521 more seamless for the customers.

522 **Q. What is the difference between the rates calculated for the GSR and GSC rate**
523 **classes?**

524 A. As has been pointed out, the GSR class is composed of a relatively homogenous group of
525 customers with similar appliances, end uses and load factors. The GSC group is a much
526 more diverse group with different usage patterns. However, it can be seen that most of the
527 smaller commercial customers, that use natural gas primarily for space and water heating, are
528 very similar in size, end use, and load factor to residential customers. For that reason, the
529 Company is proposing to charge the same rate for the first block of the GSC rate schedule as
530 the flat rate in the GSR rate schedule. This will eliminate some controversy and the desire of

531 some residential or small commercial customers to try and move from one rate schedule to
532 another. The Company recognizes that the use of the tax code in the Company's system is an
533 arbitrary method of categorizing some customers as either residential or commercial. For
534 example, there are many residential customers that operate a business out of their home. The
535 Company is unaware of these activities, and unless the customers identify themselves as
536 commercial customers, they will be included as residential customers. In addition, there are
537 many small commercial customers (small offices or retail establishments), that have the same
538 usage patterns as residential customers. For these reasons, the Company proposes to keep the
539 GSR and the first block of the GSC rates linked.

540 As has been pointed out, the current GS-1 rate design has included an intra-class subsidy
541 from larger customers to smaller customers. Because the commercial customers that are
542 being moved to the GSC rate are, on average, somewhat larger than the residential
543 customers, the winter second block rate for the GSC schedule is 33% lower than the winter
544 first block rate and the winter third block rate is 40% lower than the second block rate.

545 **Q. Have you proposed a different block structure for other rate classes?**

546 A. Yes. To standardize the block structure throughout the Tariff, the Company proposes to have
547 applicable block breaks in all the rate schedules at 200 Dth, 2,000 Dth, 20,000 Dth, 100,000
548 Dth and 500,000 Dth per month. Not all the rate schedules will have all the block breaks,
549 only those that are applicable to the size of customers in the rate schedule.

550 **C. *Design Rates and Fees to Collect the Required Revenue by Rate Schedule***

551 **Q. What is the final step in the rate-design process?**

552 A. The Company has various fees and rates to apply on customers' bills. The main billing
553 components are as follows:

554 1. **Volumetric Rates.** These are rates that are applied to the monthly volume of
555 gas used by a customer. They are further divided into declining blocks as
556 explained earlier.

- 557 2. **Basic Service Fees.** These are fees that are determined for a customer based
558 on the type of meter installed for the customer and the level of pressure of the
559 gas flowing through the meter.
- 560 3. **Administrative Fees.** These are fees charged to transportation customers
561 designed to recover the additional costs incurred by the Company solely to
562 serve these customers.
- 563 4. **Summer/Winter Rate Differential.** This is the differential between rates
564 charged during the winter months (November through March) and the rates
565 charged during the summer months (April through October). This rate
566 differential is useful to compensate high-load-factor customers (those who
567 use gas more evenly during the year) with lower rates than for low-load-factor
568 customers (those who use gas mostly during the peak winter season).
- 569 5. **Demand Charges for Transportation Service.** These charges will allow
570 transportation customers to contract annually for a fixed firm capacity per
571 day, available anytime.

572 The Company uses these billing components to design rates that match the projected
573 revenues in a rate schedule as closely as possible to the cost curves that were calculated in
574 QGC Exhibit 7.6U. To design an exact fit with the cost curves, the Company would have to
575 increase the number of blocks and fees in the schedules. The proposed rate design is a
576 compromise between matching the allocated costs for a rate schedule and developing a set of
577 rates that is simple to administer and easy for the customer to understand. The Company
578 must also be aware of designing rates that do not provide unintended consequences such as
579 calculating rates that provide incentives for customers to change rate schedules to lower their
580 bills at various usage levels. To avoid such problems, the Company has developed rules that
581 dictate the relationship between rate schedules and among the blocks in a rate schedule,
582 eliminating this type of consequence. QGC Exhibit 7.7U shows the revenue curves for all
583 the rate schedules on one graph. This graph is created to verify that the revenue curves do
584 not cross each other at any point of relevant usage in the rate schedules. If the revenue
585 curves did cross, there would be an unintended advantage for some customers to change rate

586 schedules if their usage was in that range. As can be seen, the Company has successfully
587 designed rates that do not cross.

588 **Q. Is this the same rate-design methodology that was presented to and reviewed by the**
589 **Task Force?**

590 A. Yes it is.

591 **D. *Changes to Basic Service Fees***

592 **Q. Is the Company proposing changes to the BSF?**

593 A. Yes. Mr. Bateson will discuss the details of the calculations of the proposed BSF in his
594 direct testimony. QGC Exhibit 7.5U provides for each rate schedule a summary of the
595 current and proposed BSF.

596 **VIII. PROPOSED RATES**

597

598 **Q. Have the rates calculated from this case been presented in Tariff format?**

599 A. When Mr. Bakker files the updated version of QGC Exhibit 9.5U it will show the proposed
600 Tariff rate schedules in legislative and proposed format. These Tariff sheets contain the rates
601 that will recover the test-year costs from the various customer classes. The rates were
602 derived from the test-year data and information found in the Direct Testimony and exhibits of
603 Mr. Mendenhall and Mr. Bateson, and the cost-allocation and rate-design methods I have
604 described above.

605 **Q. Have you calculated the impact of these rates on the typical residential customer?**

606 A. Yes, I have. QGC Exhibit 7.8U shows the impact of this proposed rate increase. The
607 annualized change in rates calculated in this case is an increase of \$34.44 or 5.27% per year
608 for a typical Utah residential customer on the GSR rate schedule using 80 Dth per year. The
609 projected month-by-month changes in bills are shown in QGC Exhibit 7.8U.

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

611 A. Yes.

State of Utah)

) ss.

County of Salt Lake)

I, Gary L. Robinson, 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.

Gary L. Robinson

SUBSCRIBED AND SWORN TO this 31st day of March 2008.

Notary Public