

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of) Docket No. 07-057-13
Questar Gas Company to Increase) Pre-filed Direct
Distribution Non-Gas Rates and) Test Year Testimony of
Charges and Make Tariff Modifications) Eric Orton
For the Committee of
Consumer Services

April 21, 2008

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INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Eric Orton. I am a utility analyst on the staff of the Committee of Consumer Services (Committee). My business address is 160 East 300 South Salt Lake City, Utah.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes. I presented testimony in the Test Year portion of this docket.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony (1) presents the Committee’s overall revenue requirement recommendation in this case, which is explained in greater detail in the testimony of Committee witness, Helmuth W. Schultz III; (2) introduces the Committee’s expert witnesses that sponsor various adjustments in specific revenue requirement areas (cost of capital, feeder line replacement, revenue, rate base, etc.); (3) addresses process issues that the Committee recommends the Public Service Commission (Commission) adopt; (4) makes policy recommendations on certain rate case issues; (5) recommends changes that need to be made to Questar’s tariff; and (6) makes conclusions and summarizes recommendations.

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I. Overall Recommendation

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Q. PLEASE DESCRIBE THE COMMITTEE'S OVERALL

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RECOMMENDATION FOR THE APPROPRIATE REVENUE

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REQUIREMENT IN THIS DOCKET.

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A. Based on the Committee's analysis of Questar Gas' testimony and

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the evidence provided in this case to date, we recommend that the

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Company's revenue requirement for the Test Period 2008 be

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increased from its current amount by \$97,637. In other words,

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instead of the Company having a revenue requirement deficiency of

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the \$22,157,542, the actual revenue requirement deficiency is

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\$97,637, an adjustment of \$22,059,905.

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II. Introduction of Expert Witnesses

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Q. PLEASE INTRODUCE THE COMMITTEE'S EXPERT

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WITNESSES THAT PROVIDE REVENUE REQUIREMENT

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TESTIMONY IN THIS PROCEEDING.

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46 A. Four Committee witnesses provide expert testimony on revenue
47 requirement issues in this case.

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49 Ms. Donna DeRonne sponsors testimony recommending specific
50 adjustments in the areas of net operating income and rate base.

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52 Mr. Helmuth Schultz III, provides testimony on the overall financial
53 impact of the Revenue Requirement adjustments of all CCS
54 witnesses along with various recommendations to labor costs, labor
55 overhead, pipeline integrity costs, and various other operating and
56 maintenance expenses.

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58 Ms. DeRonne and Mr. Schultz are both part of Larkin and
59 Associates, PLLC. The Committee has relied upon the expertise of
60 the Larkin team for many proceedings. They have significant
61 experience both with Utah Regulation and the Utah Utilities.

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63 Dr. Randall J. Woolridge is a renowned expert often quoted in
64 financial press. His testimony examined the critical element of the
65 capital costs in today's market, looked at the proper set of
66 comparable companies to QGC, analyzed the capital structure of the
67 Company, determined the cost of common equity capital, and refuted
68 some of the errors in the Company's ROE testimony.

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Thomas J. Norris P.E. was retained by the Committee to objectively

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and thoroughly analyze Questar's accelerated pipeline replacement

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and capital expenditure proposal in this docket. Mr. Norris is a

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professional engineer with significant and relevant experience in

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the field. His expert analysis shows that Questar has not fully

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justified its accelerated pipeline replacement plan. His

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recommendation is for the Company to provide additional support

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in its rebuttal testimony. If that evidence is not forthcoming, then an

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additional adjustment would need to be made.

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Q. HAVE THESE EXPERTS WORKED ON BEHALF OF THE

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COMMITTEE IN PREVIOUS CASES?

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A. Ms. DeRonne, Mr. Schultz, and Mr. Norris have worked on a

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number of cases for the Committee. This is Dr. Woolridge's first

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case representing the Committee.

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III. Process Recommendations to the Commission

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Q. DOES THE COMMITTEE HAVE ANY PROCESS

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RECOMMENDATIONS BASED ON THE COMPANY'S FILING?

91 A. Yes. The Committee would like to make recommendations
92 regarding the treatment of test year determinations and the filing of
93 adequate evidence and supporting material in this and future rate
94 cases.

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96 **Q. WHAT ARE THE COMMITTEE'S CONCERNS REGARDING**
97 **TEST YEAR DETERMINATION?**

98 A. Anticipating the filing of the rate case, the Committee had their
99 expert team under contract before the case was actually filed.
100 Work had begun and was progressing nicely when a test period
101 decision changed the parameters of the playing field. Changing the
102 test period after the case was filed necessarily required the
103 Company to file new testimony changed the MDRs and other data
104 requests. This took more time than we had expected. In hindsight,
105 such a process put Committee's experts, and presumably all other
106 intervenors, at a severe disadvantage.

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108 The Committee's policy remains the same as we presented in the
109 Test Year hearing: early resolution of the issue will certainly provide
110 more efficient utilization of parties' resources. However, after this
111 recent experience, we recommend that the Commission give
112 further consideration to how the Test Year issue gets resolved in
113 the future. Some possibilities include:

- 114 • developing a format for presentation of evidence such that a
- 115 test year does not need to be determined in order for
- 116 intervenors to present adjustments in a comparable fashion;
- 117 • establishing a process for test year determination outside of
- 118 the 240 day time clock;
- 119 • putting the 240 day time clock on hold during the time that
- 120 the Company prepares an updated filing.

121 The Committee is not making a specific recommendation at this
122 time. However, it would like to highlight that a change is necessary.
123 It is contrary to good public policy to have a situation where
124 intervenors must either accept unchallenged the test year proposed
125 by the Company or knowingly disadvantage its own analysis
126 (through the compressed schedule that would result from a different
127 test year being ordered).

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129 **Q. WHAT ARE THE COMMITTEES RECOMMENDATIONS**
130 **REGARDING SUPPORTING EVIDENCE AND**
131 **DOCUMENTATION?**

132 A. Our first recommendation relates to the evidence the Company files
133 with its application. In order for parties to effectively analyze and
134 investigate the Company's filing, adequate information, such as that
135 contained in the Master Data Requests, must be provided in a
136 timely manner. The Committee's view is that the primary set of

137 information accepted as necessary for review of the Company's
138 rate case should be filed in entirety before the rate case is
139 considered to be a complete filing. Thus, the 240-day clock should
140 not start ticking before this information is available to intervening
141 parties.

142
143 A related issue has also been of concern to the Committee is the
144 level to which individual issues within the filing have been
145 supported with evidence. Assertions made by the Company,
146 however strongly the beliefs are held or put forth, are not sufficient.
147 The Committee recommends that the Commission require the
148 Company to explain and support, in direct testimony and supporting
149 documentation, any proposal made in an application for increased
150 rates. Company proposals, no matter how reasonable they may
151 seem, should never be accepted absent the appropriate level of
152 supporting material.

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155 **IV. Policy Recommendations**

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157 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR**
158 **TESTIMONY?**

181 A. Yes. I will make policy recommendations regarding the
182 appropriateness of consumers bearing the costs associated with
183 Boards of Directors, the appropriate treatment of certain regulatory
184 expenses, and the appropriate use of research and development
185 funds.

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187 Q. **WHAT ARE YOUR CONCERNS REGARDING THE COMPANY'S**
188 **BOARDS OF DIRECTORS?**

189 A. As addressed in Mr. Schulz's testimony, the Company wants
190 ratepayers to reimburse the costs for two Boards of Directors:
191 Questar Corporation and Questar Gas Company. I would like to
192 raise a related policy issue.

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194 The membership of Questar Gas' Board is a subset of Questar
195 Corporate Board (with the addition of Mr. Allred). Since Questar
196 Gas Company's Board does not have different membership, it
197 raises the significant question of independence from Questar
198 Corporation. The Committee is not making a recommendation
199 regarding whether the Questar Gas Company's Board should be
200 independent. However, the benefits of Questar Gas Company's
201 Board to ratepayers is particularly murky when it does not have
202 independence from the Corporate Board.

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204 Given the potential divergence of the larger Questar Corporation
205 goals from the Questar Gas Company's ratepayer interests,
206 ratepayers should not bear the costs of a Board absent strong
207 demonstration that it results in ratepayer benefits. Questar Gas
208 Company's Board minutes should not be redacted from regulatory
209 review if Board expenses are being asserted to be in the ratepayer
210 interest. Regulators, especially the Committee acting as small
211 consumer advocates, cannot fulfill their legislative mandate without
212 full and complete access.

213

214 Regarding the Questar Corporation Board, the ratepayers should
215 only bear the expense to the extent that the corporate Board was
216 considering Questar Gas Company business in a manner that
217 could reasonably be found to be resulting in potential ratepayer
218 benefit. Only those items that have no relation to Questar Gas
219 should be allowed to be redacted from Questar Corporation board
220 minutes. Enough substance must remain to determine the potential
221 benefit to ratepayers of Board actions. Absent such demonstration,
222 all corporate Board costs should be disallowed. The Committee will
223 continue to follow this issue in future cases. For now, we
224 recommend that the Commission send a strong signal to the
225 Company regarding the necessity of demonstrating ratepayer
226 benefit in order to have ongoing inclusion of Board costs in rates.

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Q. WHAT ARE YOUR CONCERNS REGARDING THE

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APPROPRIATE TREATMENT OF CERTAIN REGULATORY

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EXPENSES?

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A. In this case, the Committee has recommended adjustments to

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disallow funds specifically allocated toward promoting the CET. As

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described in Ms. DeRonne's testimony, the Committee believes this

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is an inappropriate use of ratepayer funds, since the benefits

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accrue to the shareholders. We recommend that the Commission

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send a stronger signal to the Company regarding what types of

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regulatory costs are appropriate to include in rates.

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Q. WHAT ARE YOUR CONCERNS ABOUT THE USE OF

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RESEARCH AND DEVELOPMENT FUNDS?

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A. The Committee has always supported responsibly spent research

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and development (R&D) funds for the future betterment of the

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industry and thereby the ratepayers. However, in the past these

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funds were used as discretionary money by the Company. For

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example, one year they used some of it as seed money to fund

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their CET DSM program. It is not appropriate for the Company to

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use these particular funds that ratepayers appropriate as

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investment into their future betterment to shift around and do with

250 what they want. It is particularly troubling when the Company uses
251 the excess to support activities that overtly benefit shareholders
252 over ratepayers. In this case, the Company proposes to use excess
253 R&D funds to fund DSM programs. While the Committee does not
254 object to the use of R&D funds for other programs that benefit
255 ratepayers, we do not support the process being followed. The
256 Company should forecast more carefully what it needs separately
257 for R&D and DSM, rather than creating specific plans for its missed
258 forecasts.

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261 **V. Tariff Changes**

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263 **Q. THE COMPANY PROPOSES TO CHANGE SOME OF ITS TARIFF**
264 **LANGUAGE. DOES THE COMMITTEE HAVE TARIFF CHANGE**
265 **PROPOSALS ALSO?**

266 A. Yes. We recommend changes to three sections of the tariff: Section 7.02
267 Liability and Legal Remedies, Section 6 Equipment Leasing, and section
268 9.06 referring to the resolution of disagreements.

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270 **Q. WHAT ARE YOUR CONCERNS WITH THE LIABILITY AND LEGAL**
271 **REMEDIES PORTION OF THE TARIFF?**

272 A. Yes. Questar's Tariff section 7.02 Liability and Legal Remedies states:
273 "The customer will indemnify, save harmless, and defend the Company
274 against all claims, demands, cost or expense for loss, damage or injury to
275 persons or property in any manner directly or indirectly connected with or
276 growing out of the serving or use of gas service by the customer, at or on
277 the customer's side of the point of delivery." I am not a lawyer and do not
278 pretend to understand the legal consequences from the tariff, though I do
279 know that the Committee has opposed Questar's past attempts to expand
280 the customer's responsibilities for what the Committee views as the duties
281 of a prudent monopoly provider of a necessary service.

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283 This tariff provision greatly overstates the burden a customer should be
284 expected to bear. It arguably assigns to the customer, the risks inherent
285 with use of a hazardous commodity, including the utility's acts and
286 omissions, negligent, reckless or otherwise. The Commission should
287 carefully consider whether any tariff is necessary to allocate responsibility
288 between the utility and every customer, or what allocation is proper. For
289 example, would such a provision be appropriate for consequential
290 economic loss, but inappropriate if the tariff makes the customer liable for
291 the utility's acts, or acts of a third party. Consideration of these issues by
292 the Commission should be informed by soliciting legal analysis of this
293 complex issue from all interested parties. Until a new tariff is drafted, this
294 tariff language should be eliminated.

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296 **Q. WHAT CHANGES REGARDING EQUIPMENT LEASING WOULD YOU**
297 **LIKE TO PROPOSE?**

298 A. My understanding, based on discussions with the Company, is that they
299 no longer lease equipment. Therefore, the entire section six of the tariff
300 should be eliminated.

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302 **Q. WHAT CHANGES ARE YOU RECOMMENDING REGARDING**
303 **COMPLAINT PROCEDURES AND CUSTOMER SERVICE?**

304 A. In section 9.06 referring to the resolution of disagreements, the Committee
305 recommends that the contact information for the Division and Commission
306 be included in the tariff.

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309 **VI. Conclusion and Recommendations**

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311 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND**
312 **RECOMMENDATIONS.**

313 A. The Committee supports the Company having enough capital and
314 operating income to run a good system. However, we believe the amount
315 they have requested is overstated and have recommended appropriate
316 adjustments based on our analysis.

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318 I addressed three areas in my testimony: Process, Policy and Tariff
319 changes.

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321 My process recommendations are:

- 322 • The Commission should consider a new process for determining
323 Test Year. Any process should ensure that the analysis of
324 intervenors is not unfairly disadvantaged.
- 325 • The 240-day clock should not begin until the Company's filing is
326 complete with all necessary supporting material.
- 327 • All rate and policy proposals within future rate cases should be fully
328 explained and supported with appropriate documentation. The
329 Commission should reject any issues without proper support.

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331 My policy recommendations are:

- 332 • Ratepayers should only pay for Questar Corporation Board
333 expenses to the extent that it is making decisions that impacts
334 Questar Gas Company and could reasonably be found to be a
335 benefit to ratepayers.
- 336 • Ratepayers should only pay for Questar Gas Company's Board
337 expenses to the extent that it is independent from the corporate
338 Board and could reasonably be found to be a benefit to ratepayers.
- 339 • Using ratepayer funds to hire outside consultants to benefit the
340 shareholder is inappropriate.

341 • R&D investment should be properly forecasted and used for R&D.
342 Excess R&D funds should never go toward programs that benefit
343 shareholders over ratepayers.

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345 My recommendations for tariff changes are:

- 346 • Section 7.02 should be deleted until the Commission has had the
347 opportunity to give these customer liability provisions full
348 consideration informed by a complete legal briefing of the issues.
- 349 • Section 6 should be deleted reflecting the fact that the Company no
350 longer leases equipment.
- 351 • Section 9.06 should be changed to include the contact information
352 for the Division and the Commission.

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355 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON REVENUE**
356 **REQUIREMENT ISSUES?**

357 A. Yes.