

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

Docket No. 07-057-13

SURREBUTTAL TESTIMONY OF

STEVEN R. BATESON

FOR

QUESTAR GAS COMPANY

October 7, 2008

QGC Exhibit 8.0SR

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Steven R. Bateson. My business address is 180 East First South Street, Salt Lake City, Utah.

Q. Are you the same Steven R. Bateson that filed direct, updated direct, and rebuttal testimony in this docket?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I will address Dr. Dismukes' assertion that the Company's main extension policy provides a justification for allocating 25% of small-diameter mains on a commodity basis.

Q. How does Dr. Dismukes link the Company's facility extension policy to the allocation of small diameter mains?

A. He relies on the fact that the Company's facility extension policy uses estimated Dth sales to calculate the main allowance. Specifically this formula uses the estimated Dth sales to calculate the expected annual distribution non-gas (DNG) revenue for firm commercial customers.

Q. How is the expected DNG revenue calculated in this context?

A. The expected annual Dth sales are multiplied by the average DNG block rates. The annual basic service fee is added to the block revenue to arrive at annual DNG revenue.

Q. Why is the main extension allowance based on expected DNG revenue?

A. The DNG revenue received from a customer should cover the cost of serving the customer. This is achieved through the application of cost-based rates. Large customers require a larger investment in distribution plant, including main, service, meter and regulation. This larger investment is directly measured in the Company's distribution plant study. For example the Company's study attributes an average investment in

28 distribution plant for GS residential customers of \$972. The comparable investment for
29 GS commercial customers is \$1,984, and for FS customers the amount is \$9,281.
30 Because rates are cost based, the amount of revenue recovered from larger customers
31 reflects the higher levels of investment. The facility extension policy takes account of the
32 level of cost recovery from firm commercial customers by granting an allowance of 2.5
33 times the projected DNG revenue. This approach preserves the relationships built into
34 cost-based rates and the relationship between existing and new customers.

35 **Q. What impact does Dr. Dismukes proposal to allocate 25% of the costs associated**
36 **with small-diameter mains have on the relationship between existing and new**
37 **customers?**

38 A. It would create a material imbalance. Smaller customers would not cover the cost of
39 providing service to them, while larger customers would receive an allocation far in
40 excess of the cost of providing their service. In addition there would be an unjustifiable
41 cost shift from firm sales customers to industrial sales and transportation customers.

42 **Q. Is there a valid reason to allocate mains on a commodity basis?**

43 A. Yes, but the modification suggested by Dr. Dismukes is redundant. The IHP distribution
44 system is composed of the two plant categories labeled large and small-diameter mains.
45 Large-diameter mains are required to move gas from regulating stations to the local
46 delivery networks. The Distribution Throughput factor is used to allocate the large-
47 diameter mains. I presented the Distribution Throughput factor in my direct testimony.
48 This factor is calculated by determining, for each rate class, the quantity of gas delivered
49 from the IHP distribution system. Dr. Dismukes' proposal to allocate an additional 25%
50 of small-diameter mains on system throughput is redundant to the Company's approach.

51 **Q. Dr. Dismukes states that small diameter mains deliver "distribution level**
52 **throughput" (Dismukes Rebuttal, line 153). Does the Company have an allocation**
53 **factor that measures distribution level throughput?**

54 A. Yes. Dr. Dismukes has proposed to use **system** throughput to allocate 25% of small-
55 diameter mains. This throughput factor includes a significant quantity of gas that never
56 enters the IHP system. For example 89.3% of gas delivered to transportation customers

57 never touches the IHP distribution system. While Dr. Dismukes apparently recognizes
58 this distinction, he nevertheless proposes to use the wrong throughput factor. In addition
59 to being redundant, to the Company's approach to allocating the cost of the IHP system,
60 Dr. Dismukes' proposal is fundamentally flawed due to the use of the wrong throughput
61 factor.

62 **Q. Please summarize your surrebuttal testimony.**

63 A. Dr. Dismukes proposes to allocate 25% of the small-diameter mains to customer classes
64 not responsible for these facilities. He justifies this by noting that the Company's facility
65 extension policy uses Dth throughput to calculate the main allowance and concludes that,
66 therefore, Dth throughput should be used to allocate costs. I have explained that the
67 Company's facility extension policy is based on the relationship of revenue to cost. The
68 relationship between Dth throughput and the Company's facility extension policy is the
69 use of Dth throughput as a billing unit used in the calculation of revenue. Dr. Dismukes'
70 proposed modification to the Company's COS study is redundant to a similar approach
71 the Company has already incorporated in its COS study. Furthermore Dr. Dismukes'
72 proposal is fundamentally flawed due to his use of the wrong throughput factor. The
73 Commission should reject Dr. Dismukes' recommendation to allocate 25% of small-
74 diameter mains on system throughput.

75 **Q. Does that conclude your surrebuttal testimony?**

76 A. Yes it does.

State of Utah)
) ss.
County of Salt Lake)

I, Steven R. Bateson, 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.

Steven R. Bateson

SUBSCRIBED AND SWORN TO this 7th day of October 2008.

Notary Public