

**Witness CCS – 1SR Cost of Service/Rate Design EO**

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In the Matter of the Application of</b>	)	<b>Docket No. 07-057-13</b>
<b>Questar Gas Company to Increase</b>	)	<b>Surrebuttal</b>
<b>Distribution Non-Gas Rates and</b>	)	<b>Testimony of</b>
<b>Charges and Make Tariff</b>	)	<b>Eric Orton</b>
<b>Modifications</b>	)	<b>For the Committee of</b>
	)	<b>Consumer Services</b>

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October 7, 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 and Revenue Requirement phases and I also offered Direct Testimony in this portion of the docket.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. In representing the interests of residential and small commercial customers of Questar Gas, I will respond to criticisms of the Committee’s positions regarding tariff liability language, the distribution plant factor study, declining block rates, the Basic Service Fee and the split of the GS1 class.

The Committee’s expert witness, Dr. David Dismukes, will present separate testimony responding to critiques of other Committee positions.

1) Tariff Liability Language

**Q. PLEASE ADDRESS THE COMPANY’S POSITION ON TARIFF LIABILITY AS STATED IN MR. BAKKER’S REBUTTAL TESTIMONY.**

31 A. Mr. Bakker disagrees with the Committee’s recommendation to  
32 eliminate section 7.02 of Questar’s Tariff Liability and Legal  
33 Remedies which states: “The customer will indemnify, save  
34 harmless, and *defend the Company* against all claims, demands,  
35 cost or expense for loss, damage or injury to persons or property in  
36 any manner directly or indirectly connected with or growing out of  
37 the serving or use of gas service by the customer, at or on the  
38 customer’s side of the point of delivery.” (Italics added) Mr.  
39 Bakker argues that this language “properly places the risk upon the  
40 person who bears the responsibility for ensuring the safety of  
41 natural gas appliances and equipment.” because it refers to  
42 incidents that may happen where it is not a result of the Company’s  
43 equipment.

44

45 **Q. WHAT ARE THE COMMITTEE’S CONCERNS WITH THE TARIFF**  
46 **LANGUAGE?**

47 A. Stating that ‘the customer will defend the Company’ is overly broad  
48 and gives the consumers responsibilities beyond what they could  
49 reasonably be expected to know and understand that they have.  
50 Further, the longtime existence of this language is not reason to  
51 continue its existence. Its examination at this time is appropriate  
52 and necessary.

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54 The Committee believes that there are legal barriers to a regulated  
55 public utility conditioning service upon a customer agreeing to such  
56 onerous terms. The Commission should eliminate this tariff  
57 language and require the Company to legally justify its inclusion, if  
58 the Company would like to propose its inclusion in future tariffs.

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62 2) Distribution Plant Factor

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64 **Q. TO WHAT CCS POSITION DID THE COMPANY OFFER AN**  
65 **ALTERNATIVE?**

66 A. In the Distribution Plant Factor Study part of the Cost of Service  
67 Study, the Company used a sampling of some 1673 customers to  
68 estimate the appropriate cost distribution among customer classes.  
69 The Committee recommended that the Company measure the  
70 1036 non-GS customers and deduct the result of that study from  
71 the total. This, the Committee believes, would give a more  
72 accurate cost determination for the GS-1 class.

73

74 **Q. THE COMPANY'S WITNESS, MR. BATESON, DISAGREES**  
75 **WITH THE SOUNDNESS AND REASONING OF THE METHOD**  
76 **THE COMMITTEE PROPOSES. PLEASE COMMENT.**

77 A. The Company questions whether an actual cost method would be  
78 more accurate than their sampling method, but provided no  
79 additional evidence supporting their assertion of accuracy. The  
80 Committee continues to assert that, by definition, sampling is not as  
81 accurate as actual results.

82

83 **Q. MR. BATESON ALSO CONTENDS THAT DOING THIS 'ACTUAL**  
84 **COST' METHOD PROPOSED BY THE COMMITTEE WOULD**  
85 **'INCREASE THE COST OF PERFORMING THE ANALYSIS**  
86 **SUBSTANTIALLY'. DO YOU AGREE?**

87 A. No. Mr. Bateson provided no evidence supporting his assertion of  
88 increased costs. Absent such analysis, it would appear that  
89 determining the cost to serve 1036 customers, as proposed by the  
90 Committee, would be less costly (not more) than determining the  
91 cost to serve 1673 customers, as the Company currently does.

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**Q. DID MR. BATESON OFFER AN ALTERNATIVE REGARDING THE DISTRIBUTION PLANT FACTOR STUDY?**

A. Yes. The offer is to include in the study, not only the initial 1159 GS customers sampled, the 514 non-GS customers sampled, and the entire group of 183 customers that use over 16,000 cf/hr but to add to that, the entire population of IS customers (64) and the TS customers (57).

**Q. DOES THE COMMITTEE SUPPORT THE COMPANY'S ALTERNATE PROPOSAL?**

A. Yes. The Committee believes that the Company's proposal will provide a higher level of precision to the distribution plant factor study particularly related to the industrial customers.

3) Declining Block Rates for the Proposed GSC Rate Class

**Q. MR BATESON ALSO DISAGREES WITH YOUR ARGUMENT THAT THERE IS A DISCONNECT BETWEEN A DECLIING BLOCK RATE FOR THE PROPOSED NEW GSC CLASS AND THE COMPANY'S DSM INITIATIVES. PLEASE COMMENT.**

A. Mr. Bateson argues that declining block rates are a proper way to show cost causation and thereby appropriate to collect those costs from ratepayers, relying on the cost curves presented in the Company's original filing. However, there are, very properly, other considerations the PSC uses when setting rates that are not based solely on a declining cost curve. When addressing the BSF rates, Mr. Bateson, said, in lines 202-203 that 'I do not believe that studies of this type should be relied upon solely to arrive as a decision on the level of BSF charges". The same argument holds true with respect to cost curves.

124 **Q. WHY ARE RATES JUSTIFIABLY NOT BASED SOLEY ON THE**  
125 **COST CURVE?**

126 A. The setting of rates would be simple and the PSC would have little  
127 to do other than verify the numbers if cost curves were the only  
128 consideration when setting rates. However, there are numerous  
129 other factors to consider when setting rates. The MT and FT  
130 tariffed rates are not based on cost curve. The CET and DSM are  
131 tariffs which were proposed by the company are rates that are not  
132 based on the cost curve<sup>1</sup>.

133 **Q. DOES ANY OTHER PARTY ADDRESS THE DECLINING BLOCK**  
134 **RATE AND ITS CONTRADICTION TO DSM?**

135 A. Yes. In the Divisions testimony filed on August 18, 2008  
136 concerning the BSF, on lines 263-272 witness Barrow says: “ More  
137 importantly, in today’s environment where conservation and energy  
138 efficiency are major public policy concerns, it may make more  
139 sense, given the CET, to put the onus on individual customers to  
140 conserve and become more energy efficient by increasing the DNG  
141 volumetric rate while reducing or completely eliminating the  
142 monthly customer charge. This lends itself to moving to flatter  
143 block rates and even inclining block rates rather than declining  
144 block rates for those schedules that currently have volumetric  
145 usage blocks. For large volume industrial customers, flatter or an  
146 inclining block rate design may encourage those customers to  
147 pursue DSM projects because of the increased paybacks for the  
148 DSM projects.” He is correct. Nonetheless, the Division is  
149 supporting some level of declining blocks for the GS-C class.

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<sup>1</sup> See also: Pre-filed Surrebuttal Tesitimony of David E. Dismukes, Ph.D. For the Committee of Consumer Services, lines 248 – 271 and lines 339-345.

151 **Q. DOES THE DIVISION ACKNOWLEDGE THAT THE COMPANY'S**  
152 **PROPOSAL TO ESTABLISH DECLINING BLOCK RATES FOR**  
153 **THE NEW GS-C CLASS RESULTS IN SOME DISCRIMINATORY**  
154 **TREATMENT?**

155 A. Yes. While the Company's proposal is designed to be neutral with  
156 respect to commercial and residential rates for users up to level of  
157 45 Dth, it is discriminatory between those two classes for  
158 consumers that consume more than that amount. Since the new  
159 GS-C class has declining block rates and the new GS-R class does  
160 not, similarly situated customers will be treated differently.

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162 **Q. THE DIVISION ASSERTS THAT THIS DISCRIMINATORY**  
163 **TREATMENT IS FAIR BECAUSE IT IS THE RESULT OF "LIFE**  
164 **STYLE CHOICES". DO YOU AGREE?**

165 A. No. In fact, it is not clear to me how the Division reached its  
166 conclusion. The Division went from asking if it was fair to charge  
167 different rates to different consumers that use the same amount of  
168 gas to an answer that asserts it is not fair to subsidize "life style  
169 choices<sup>2</sup>." I do not believe that the Division answered its own  
170 question; a question that warrants an answer. The Division also  
171 seemed to indicate that fair and discriminatory treatment could be  
172 evaluated on the basis of whether the natural gas usage related to  
173 end use (such as heating a home) or intermediate use (to achieve  
174 some commercial or public process). The Committee objects to  
175 these ideas presented by the Division as having no basis in rate  
176 design principles. The Committee does agree with the Division that  
177 many aspects of usage (such as load shape and load factor) need  
178 to be evaluated in properly assessing rate design. However, none

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<sup>2</sup> See Pre-Filed Rebuttal Testimony of Barlin Barrow On Behalf of the Utah Division of Public Utilities Phase 2 – Cost of Service, lines 241 – 266.

179 of these factors are incorporated into the Division's or the  
180 Company's current proposal.

181

182 **Q. HAS THE COMMITTEE'S RECOMMENDATION OPPOSING**  
183 **DECLINING BLOCK RATES FOR THE PROPOSED GSC RATE**  
184 **CLASS CHANGED BASED ON THE REBUTTAL TESTIMONY**  
185 **OF THE COMPANY?**

186 A. No. In a regulatory climate that emphasizes conservation, the  
187 continuation of declining block rates is inappropriate. If the  
188 Company is concerned that splitting the GS-1 class into two  
189 classes with flat energy rates does not accurately capture cost  
190 causation, then it should propose the appropriate number of  
191 classes to remove intra-class inequities. Further, the current  
192 proposal creates a new set of rate design problems (including the  
193 discriminatory rates described above) in an effort to correct other  
194 problems.

195

196 4) BSF

197

198 **Q. WHAT OTHER COMMITTEE RECOMMENDATION DID MR.**  
199 **BATESON DISAGREE WITH?**

200 A. Mr. Bateson disagrees with the recommendation not to raise the  
201 level of the BSF. His disagreement is actually with the DPU, CCS  
202 and SLCAP/AARP. Five witnesses testify that the BSF should  
203 remain unchanged.

204

205 **Q. WHAT WAS THE COMMITTEE'S POLICY CONCERNS**  
206 **REGARDING THE COMPANY'S PROPOSAL FOR INCREASING**  
207 **THE BASIC SERVICE FEE?**

208 A. The Committee is opposed to increasing the Basic Service Fee in  
209 this case. The idea of collecting more of the DNG costs on a flat



210 fee is counter to allowing price signals that can be seen and  
211 responded to by the customers. A higher BSF is also contrary to  
212 promoting conservation. To promote these public policy concepts,  
213 more costs should be collected through volumetric based charges  
214 and less on a fixed fee.

215

216 **Q. DOES THE COMMITTEE AGREE WITH THE COMPANY'S**  
217 **ARGUMENTS REGARDING THE REASONING FOR**  
218 **INCREASING BSF?**

219 A. No. Mr. Bateson again supports his objection solely by his use of  
220 the cost curves. The Committee's witness, Dr. Dismukes  
221 addresses this misplaced reliance on the cost curves in his sur-  
222 rebuttal testimony<sup>3</sup>.

223

224 5) GSR/GSC Split by Tax Code

225

226 **Q. THE DIVISION DEVOTES ITS SURREBUTTAL TESTIMONY TO**  
227 **SUPPORTING THE COMPANY'S POSITION ON HOW TO SPLIT**  
228 **THE CURRENT GS-1 RATE INTO THE GSR AND GSC RATE**  
229 **CLASSES. WHAT IS ITS REASONING?**

230 A. The Division asserts that the tax code is best "because it defined by  
231 a fixed parameter, a customer's rate class."

232

233 **Q. THE DIVISION SUPPORTS THIS SPLIT BECAUSE OF THE**  
234 **DIFFERENCE BETWEEN END USE VERSUS INTERMEDIATE**  
235 **OR ECONOMIC USE. WHAT IS YOUR RESPONSE?**

236 A. The Division may be correct that this concept is the primary  
237 difference between the GSR and GSC class<sup>4</sup>. However, this

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<sup>3</sup> See Pre-filed Surrebuttal Testimony of David E. Dismukes, Ph.D. For the Committee of Consumer Services, lines 248 – 271 and lines 339-345.

<sup>4</sup> See Pre-Filed Rebuttal Testimony of Barlin Barrow On Behalf of the Utah Division of Public Utilities Phase 2 – Cost of Service, lines 121 – 139.

238 distinction is not a basis for determination of appropriate rates. The  
239 regulatory process has never been a forum for determining whether  
240 it is a better use of natural gas in a home for “comforts and  
241 conveniences sought in a residential setting” or a similar use of  
242 natural gas in a home used as a home-based business  
243 (presumably seeking similar comforts and conveniences). Similar  
244 patterns and levels of usage should be treated similarly. Anything  
245 else must be considered discriminatory treatment.

246  
247 However, the distinction of types of end use is relevant in another  
248 context. If the CET is continued beyond its pilot stage, customers  
249 within the same class should have access to the same types of  
250 conservation measures in order not to be unfairly burdened by rate  
251 changes due to the CET. For this reason, it would be more fair to  
252 group together customers that primarily use natural gas for space  
253 and water heating (regardless of whether it contributes to an  
254 economic or public process) as having similar opportunities for  
255 conservation. Grouping small commercial customers in with  
256 extremely large customers creates inequities in the potential to  
257 manage natural gas usage and the resultant rate impacts due to  
258 the CET.

259

260 **Q. WHAT RATE MAKING PRINCIPLES DOES THE**  
261 **DIVISION/COMPANY STAND ON IN SUPPORT OF USING TAX**  
262 **CODE TO ESTABLISH A RATE CLASS?**

263 A. They don't mention any.

264

265 **Q. HOW ARE THE TAX CODES ASSIGNED?**

266 A. According to the Division's testimony, the Questar Gas Customer  
267 Service Representative (CSR) asks the person requesting service if  
268 the service is primarily for residential or commercial service and

269 then assigns the appropriate tax code. However, the CRS training  
270 manuals do not mention sales tax codes. They do mention asking  
271 for SIC codes (which are entirely different than sales tax codes),  
272 which are used by Questar Gas' marketing department and could  
273 presumably, also, be utilized in classifying new customers as  
274 residential or commercial.

275

276 **Q. ARE THERE INDUSTRY STANDARDS TO DETERMINE**  
277 **WHEATHER A LOCATION IS USED AS A BUSINESS OR A**  
278 **RESIDENCE?**

279 A. No. In fact, there are many examples, such as home-based  
280 businesses, where the determination would not be clear cut. In its  
281 CSR training manual, Questar indicated that it uses square footage  
282 as a ratio of business to residential as the determinant.

283

284 **Q. ARE THERE OTHER CONCERNS ABOUT THE**  
285 **DETERMINATION OF TAX CODES?**

286 A. Yes. It does not appear that customers' responses are verified, nor  
287 are there any additional motivations for the CSR to do so. Also,  
288 there may exist motivation for a new customer to try and game the  
289 designation, especially in an instance where the designation is not  
290 clear cut. According to the division, a new customer would save  
291 money (2.65%) through lower tax rates by indicating residential  
292 instead of commercial and because deposits are required on new  
293 business accounts and not for all new residential accounts. Finally,  
294 it is not clear how government accounts would get properly  
295 identified and classified, since they do not have a sales tax code.

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299 **Q. HAVE TAX CODES BEEN USED TO SEGREGATE RATE**  
300 **CLASSES IN THE PAST, OR IN ANY OTHER JURRISDICTION?**

301 A. Not that I am aware of. Also, in its response to CCS DR 29.04,  
302 Questar indicated it was not aware whether other companies use  
303 tax codes to establish rate classes.

304

305 **Q. ON WHAT BASIS DOES THE DIVISION CRITIMIZE THE**  
306 **COMMITTEE'S VOLUMETRIC APPROACH?**

307 A. Their primary arguments are that 1) volumes change over time and  
308 2) there could be a problem for the customers who are at the edge  
309 of the rate classes, such as difficult transitions between classes and  
310 the unintended consequence of promoting additional consumption  
311 to be eligible for a different rate class.

312

313 **Q. ARE THOSE VALID CRITIQUES?**

314 A. To some extent. These are issues that would need to be  
315 addressed. However, these issues are not reasons to abandon the  
316 concept of dividing classes based on volumetric usage.

317

318 **Q. DOES THE DIVISION PROPOSE TO DO AWAY WITH OTHER**  
319 **VOLUMETRIC RATES CURRENTLY IN QUESTAR'S TARIFF?**

320 A. No. They only critique the Committee's volumetric rate proposal.  
321 Apparently they believe that this type of rate design has worked  
322 and continues to work well in other instances.

323

324 **Q. THE DIVISION USES AN EXAMPLE OF THE F-1/GS-1**  
325 **BOARDERLINE CUSTOMER WHO COULD POTENTIALLY**  
326 **GAME THE SYSTEM BY CHANGING RATE CLASSES. WHAT**  
327 **IS YOUR RESPONSE?**

328 A. The Division's example is hypothetical. In fact, the Division states  
329 that it doesn't believe this example would occur. The Committee

330 believes that any proposal to divide customers into classes could  
331 be gamed, but it also believes that a split based on volumetric basis  
332 could be designed to minimize gaming.

333

334 **Q. THE DIVISION PROPOSES TO SPLIT GS-1 INTO TWO**  
335 **CLASSES NOW AND REFINE THE PROPOSAL LATER. WHAT**  
336 **IS YOUR RESPONSE?**

337 A. While the Committee is pleased that the Division acknowledges  
338 some of the same policy concerns as we have, such as the need to  
339 promote conservation, we are concerned with the Division's  
340 proposal to move forward with the flaws that remain in the current  
341 proposal to split the GS-1 class. The Committee believes that  
342 public interest would best be served to spend a little more time  
343 refining the details of a plan to divide the GS-1 case in order to  
344 minimize both customer confusion and unintended consequences  
345 from multiple changes in customer classes.

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347

348 **Conclusion and Recommendations**

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350 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND**  
351 **RECOMMENDATIONS.**

352 A. In addition to the Committee's recommendations addressed by Dr.  
353 Dismukes, I recommend the following:

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- 355 • Section 7.02 should be deleted because it is overly broad  
356 and onerous to consumers. Further, the Company should  
357 be required to legally justify its inclusion, if the Company  
358 would like to propose its inclusion in future tariffs
  - 359 • The Commission should adopt the proposed new  
360 Distribution Plant Factor Study that incorporates more actual  
costs for the non-GS customers.

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- The Commission should reject the declining block rate associated with the proposed GS-C class.
  - The Commission should deny the proposed increase to the Basic Service Fee.
  - The Commission should reject the Company's proposal to do split the GS-1 class based on tax code. The Committee continues to support a split based on usage, but acknowledges that certain details of that proposal would need to be refined. However, the Committee does not support a hasty division (on any basis) of the GS-1 class in this case to be followed up with refinements. To avoid consumer confusion and unintended consequences, the Committee recommends that the Commission provide guidance on the split of the GS-1 class in this case, requiring solutions to the remaining issues, and delay the actual split of the class until these solutions are reached.

378 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY**

379 **ON COST OF SERVICE AND RATE DESIGN ISSUES?**

380 A. Yes.