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**BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH**

IN THE MATTER OF THE)	Docket No. 13-057-02
INVESTIGATION REQUIRED BY S.B.)	
275, ENERGY AMENDMENTS,)	COMMENTS OF QUESTAR GAS
ADDRESSING CLEANER AIR)	COMPANY
THROUGH THE ENHANCED USE OF)	
ALTERNATIVE FUEL VEHICLES)	

Pursuant to the Scheduling Order and Notice of Public Hearing in the above-referenced Docket, Questar Gas Company (Questar Gas or Company) respectfully submits these comments.

I. SENATE BILL 275 DOCKET

Senate Bill 275 seeks to facilitate “the conversion to alternative fuel vehicles and the provision of facilities for alternative fuel vehicles.” (SB 275, Enrolled Copy, General Description). The Utah Public Service Commission (Commission) has been charged to

“initiate and conduct proceedings to explore and develop options and opportunities for advancing and promoting measures designed to result in cleaner air in the state through the enhanced use of alternative fuel vehicles, including:

- (a) Consideration of the role that gas corporations should play in the enhancement and expansion of infrastructure and facilities for alternative fuel vehicles;
- (b) The potential funding options available to pay for the enhancement and expansion of infrastructure and facilities for alternative fuel vehicles;
- (c) The role local government, including any local government entity established for the purpose of facilitating conversion to alternative fuel vehicles and of promoting the enhancement and expansion of the infrastructure and facilities for those vehicles, can or should play; and
- (d) The most effective way to overcome any obstacles to converting to alternative fuel vehicles and to enhancing and expanding the infrastructure and facilities for alternative fuel vehicles.”

Utah Code Ann. 54-1-13.

II. NATURAL GAS IS PART OF THE CLEAN AIR SOLUTION.

In recent years, Utah has experienced air-quality problems. The Wasatch front experienced a number of “Red” or “No Burn” days in early 2013. Poor air quality along the Wasatch Front has even received national attention. Last winter, the *New York Times* reported that “Salt Lake County has experienced 22 days this winter in which pollution levels exceeded federal air quality standards, compared with just one last year.” Frosch, Dan “Seen as Nature Lovers’ Paradise, Utah Struggles with Air Quality”, *New York Times*, February 23, 2013. Governor Herbert said “All of us recognize we have some unique challenges when it comes to the air quality in Utah. We have some of the worst air on 17 to 20 days of any place in the country and we can’t just ignore that. We can’t just blame it on the weather.” Gehrke, Robert;

Fahys, Judy, “Gov. Gary Herbert urges Utahns to join the fight for cleaner air”, *Salt Lake Tribune*, January 27, 2012.

Much of Utah’s air-quality problem can be attributed to vehicles. According to the Environmental Protection Agency (EPA), “In typical urban areas, at least half of [ozone causing] pollutants come from cars, buses, trucks, and off-highway mobile sources such as construction vehicles and boats.” EPA Fact Sheet OMS-4, January, 1993. Indeed, the EPA suggests that “[t]he only way to ensure healthy air is to markedly reduce our use of cars or to switch to fuels that are inherently cleaner than conventional gasoline.” *Id.*

Interested entities have proposed many solutions. In his 10-year Strategic Energy Plan, Governor Herbert recommended that Utah “Support augmentation of Utah’s fuel supply with nontraditional fuels . . . [and] [p]romote research and commercialization of clean technology for nontraditional fuels and alternative fuel vehicles. . . .” Governor Gary Herbert, “Energy Initiatives & Imperatives, Utah’s 10-year Strategic Energy Plan,” March 2, 2011. Utah Physicians for a Healthy Environment recommends, among other things,: Initiating a moratorium on the construction of new coal-fired power plants in Utah; Requiring existing coal power plants to install state-of-the-art pollution control equipment and technology, including mercury capture; Reducing the speed limit to 55 mph along the Wasatch Front whenever the air pollution exceeds the EPA threshold for ozone or PM2.5; Increasing mass transit use by devoting a portion of public revenues generated by gasoline tax to double the service and provide free ridership; and, notably, *requiring all future school bus purchases to be vehicles that have the ability to run on alternative fuels.* Utah Physicians for a Healthy Environment Recommendations dated May 11, 2007, <http://blog.utahmomsforcleanair.org/2007/05/11utah-physicians-recommendations/>.

Indeed, the passage of SB 275 evidenced Utah's commitment to improving the air quality in Utah by promoting the use of fleet vehicles that run on compressed natural gas (CNG). With the Governor's leadership, the legislature passed SB 275 and began to advance the conversion of buses and fleets from diesel to natural gas. Questar Gas believes this is an important step toward cleaner air.

CNG buses are substantially cleaner than today's diesel buses. Tail-pipe CO₂ emissions from CNG buses are approximately 22 percent lower per diesel-equivalent gallon than CO₂ emissions from diesel buses. (MJ Bradley & Associates, "Clean Diesel versus CNG Buses: Cost, Air Quality, & Climate Impacts", February 22, 2012, page 3; QGC Exhibit 1, *Natural Gas Vehicles*, AGA 2013). Replacing older diesel buses with new CNG buses will reduce annual NO_x, PM and HC emissions 4,197 kg, 279 kg, and 471 kg respectively. *Id.* Replacing old diesel buses with new CNG buses will result in reduced PM, Nox, HC, and Co₂ emissions. *Id.* at p. 10.

The American Gas Association (AGA) has endorsed the use of natural gas-powered vehicles for a number of reasons, including the fact that they produce 30 percent fewer greenhouse-gas emissions than petroleum –fueled vehicles. (QGC Exhibit 2, *AGA Viewpoint on Natural Gas as a Transportation Fuel*, AGA, 2008) In fact, according to the AGA, converting just one refuse truck from diesel to natural gas has the same emissions effect of taking 325 petroleum-fueled cars off the road. *Id.*

III. COSTS OF CNG BUSES AND FLEETS

These benefits do not come without a cost. CNG transit buses currently cost, on average, approximately \$70,000 more to purchase than equivalent diesel buses. *Id.* at p. 1. Converting a diesel bus to dual-fuel (able to run on both CNG and diesel) costs approximately \$20,000. In addition to the incremental bus-purchase/conversion costs, the vehicle owner must also invest in

new CNG fueling stations, which can cost \$25,800 or more per bus. “For every \$10 million of capital funding, a transit agency could purchase approximately 26 new diesel buses or 21 new CNG buses (and associated fueling infrastructure), and retire an equivalent number of old buses.” *Id.* at p. 2.

Some of this cost will be offset in fuel savings. Nationally, bus operators can expect to save approximately \$11,000 a year in fuel costs because nationally, on average, CNG costs 35 percent per gas gallon equivalent (GGE) than diesel fuel. *Id.* at p. 1. In Utah, the payoff happens more quickly. In Utah, a gallon of diesel fuel sells for approximately \$3.84 and a gas gallon equivalent (GGE) of CNG at a Questar Gas station costs \$1.58.¹

Questar Gas understands that, currently, UTA has between 100 and 130 buses. It currently has 24 CNG buses on order. The diesel buses generally get 4.5 miles per gallon and drive 58,000 miles per year, on average. Using this data, UTA would recoup the extra purchase cost in less than 2 ½ years. School districts along the Wasatch Front have hundreds of school buses and could conduct a similar cost-benefit analysis. Jordan School District, for example, is already running 62 CNG buses (in a fleet of 215).

IV. FUNDING

Two hurdles impact an agency’s ability to convert fleets to run on CNG. First, there are challenges in finding funding to construct sufficient fueling stations to make such conversion feasible. Second, many agencies are budget-constrained and finding funds to purchase and maintain CNG vehicles is difficult. Questar Gas stands ready to participate in addressing the

¹ In its most recent general rate case, filed on July 1, 2013, Questar Gas is seeking to increase the CNG rate to \$1.68 per GGE.

first hurdle, but believes that the second hurdle is better addressed by the governmental and quasi-governmental agencies themselves.

A. Questar Gas is Best Suited to Construct and Operate More CNG Fueling Stations

Questar Gas has extensive experience with CNG fueling facilities and has had tremendous success in developing CNG fueling infrastructure in Utah. In 1988, Questar Gas opened its first public CNG fueling station. Questar Gas continued to build and operate CNG fueling stations over the years. Today, Questar Gas owns and operates 29 CNG fueling stations. Questar Gas sells between 400,000 and 500,000 GGEs every month. QGC Exhibit 3, page 4.

During the 2013 legislative session, the Governor and members of the Utah State Legislature asked Questar Gas to do more. SB 275 provided a rate-recovery mechanism for Questar Gas should it invest in natural gas refueling infrastructure. While Questar Gas supports the continued enhancement of the natural gas fueling infrastructure in Utah, and is committed to doing so in support of public fleets, it is concerned that high levels of investment would result in unreasonable or unjust rates for its customers.

The newly-enacted Utah statute provides:

54-4-13.4. Natural gas fueling stations and facilities -- Recovery of expenditures for stations and facilities.

(1) The commission shall find that a gas corporation's expenditures for the construction, operation, and maintenance of natural gas fueling stations and appurtenant natural gas facilities for use by the state, political subdivisions of the state, and the public are in the public interest and are just and reasonable, if:

(a) the gas corporation's expenditures for the fueling stations and appurtenant facilities:

(i) are prudently incurred; and

(ii) do not exceed \$5,000,000 in any calendar year, unless the commission determines after the first year, through the general rate making process, that a higher amount is appropriate and in the best interest of the public;

- (b) the gas corporation shows that the estimated annual incremental increase in revenue related to the stations and facilities exceeds 50% of the annual revenue requirement of the stations and facilities; and
- (c) the stations and facilities are in service and are being used and are useful.

- (2)
 - (a) A gas corporation may seek the recovery of expenditures under Subsection (1) through a mechanism designed to track and collect the expenditures between general rate cases.
 - (b)
 - (i) The commission shall allow a gas corporation to recover, through an incremental surcharge to all of its rate classes, expenditures that the gas corporation incurs that are directly related to the construction, operation, and maintenance of the stations and facilities described in Subsection (1), reduced by revenues the gas corporation receives during the same time period directly attributable to the stations and facilities.
 - (ii) The commission shall assign a surcharge under Subsection (2)(b)(i) to each rate class based upon the pro rata share, approved by the commission, of the tariff revenue ordered in the gas corporation's most recent general rate case.
 - (iii) A gas corporation may file an application to adjust a surcharge under Subsection (2)(b)(i) as frequently as semiannually.
 - (iv) At the gas corporation's next general rate case, the commission shall include in base rates all expenditures that the gas corporation prudently incurs associated with a surcharge under Subsection (2)(b)(i).

Utah Code Ann. § 54-4-13.4.

Questar Gas believes this statute is narrow in scope and that it is intended to provide CNG fueling facilities for use by governmental fleets and the public. Questar Gas does not believe that the legislation is intended to provide a way for private entities to obtain CNG fueling stations at the expense of Questar Gas' customers.

The CNG fueling stations and the appurtenant facilities vary in cost, depending upon the size and location. Rural stations generally cost between \$500,000 and \$1 million to construct and between \$20,000 and \$75,000 a year to operate and maintain. Urban stations cost more; between \$750,000 and \$1.4 million to construct and between \$25,000 and \$150,000 a year to

operate and maintain. Under SB 275, a portion of these costs would fall on the shoulders of Questar Gas' customers.

Under traditional ratemaking, Questar Gas has built CNG fueling stations and the appurtenant facilities and has been authorized to collect those costs from customers over time. The same ratemaking principles would apply under SB 275.

If Questar Gas constructed a station at a cost of \$5 million and sought recovery under SB 275, its customers would bear roughly half of that cost. QGC Exhibit 3, page 15, shows that the resulting revenue requirement borne by or Questar Gas' customers would be approximately \$650,000. The annual impact of that revenue requirement on an average general service customer would be roughly \$0.57. QGC Exhibit 3, page 15. That impact would grow with each new station built.

While SB 275 imposed a \$5 million annual cap on Questar Gas investment for these fueling facilities, it also contained provisions that (a) allowed the Commission to waive the cap, and (b) eliminate the cap altogether effective July 1, 2018. Utah Code Ann. § 54-1-13.4(1)(a)(ii) and § 63I-1-254.

Utah Code Ann. § 54-1-13.4, as it is currently written, does not require Questar Gas to construct (or pay for the construction of) fueling facilities for private entities, or for facilities that it does not own and operate. If any amendment in the future were to require such contributions, then Questar Gas' customers would have to pay back that investment in the course of a single year. In that case, a \$5 million investment under SB 275 would increase costs to average general service customer by more than \$2.00 a year. Exhibit 3, page 21. Questar Gas believes that if the Legislature intends for the Company's customers to pay for facilities that are not part of Questar

Gas plant and rate base, then the Legislature should do so through a tax, not the rate-recovery mechanism set forth in SB 275.

Questar Gas' customers enjoy rates that are among the lowest in the nation. Questar Gas is concerned that significant investment could create a burden on its customers and, it would adversely impact Utah's economic development. Accordingly, Questar Gas recommends that the \$5 million cap remain in place and that the investment be limited to CNG fueling stations for governmental entities and the public.

B. Questar Gas Should Not Fund Bus Purchases or Maintenance Facilities.

Likewise, Utah Code Ann. § 54-1-13.4, as it is currently written, does not require Questar Gas to fund the purchase of CNG buses or to pay to construct maintenance facilities. The analysis shown on page 21 of Exhibit 3 shows the rate impact if Questar Gas simply contributes money to another entity's construction or purchase efforts. Again, the contribution of funds to a fleet-owner would increase rates and, depending on the cost of the fleet or maintenance facility, could quickly result in unjust and unreasonable natural gas rates.

As noted above, other mechanisms exist to fund the purchase of new buses and the construction of maintenance facilities. Fleet owners already purchase buses (CNG fueled or otherwise) and should continue to do so. Members of the newly-formed interlocal entity can pool their resources in order to construct maintenance facilities. If additional funds are required, Questar Gas believes that the governmental and quasi-governmental entities are best suited to collect those funds through a variety of mechanisms including:

- (a) a gasoline tax increase,
- (b) a municipal energy tax,

(c) an “opt-in” voluntary-contribution program by which utility customers could opt to contribute money to advance alternative-fuel bus purchases (something like Rocky Mountain Power’s “Blue Sky Program”), and/or

(d) state or federal grants.

However, Questar Gas believes that its required involvement, if any, should be limited to its area of expertise—constructing and operating fueling facilities.

V. CONCLUSION

Questar Gas Company supports the Governor’s and the Legislature’s efforts to improve Utah’s air quality. Questar Gas believes that more CNG vehicles and fleets is a part of the clean-air solution. Questar Gas believes that its involvement should be limited to its area of expertise: construction and operation of CNG fueling stations for governmental entities and the public. Questar Gas believes that its customers should not bear an unfair portion of the burden of these facilities and, therefore, recommends that it be allowed to spend \$5 million a year or less on those facilities.

Respectfully submitted this 3rd day of July, 2013.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 3rd day of July, 2013, a true and correct copy of the foregoing COMMENTS OF QUESTAR GAS COMPANY was served upon the following via e-mail and U.S. Mail:

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