



State of Utah

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Governor

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Lieutenant Governor

Public Service Commission

RON ALLEN
Chairman

DAVID R. CLARK
Commissioner

THAD LeVAR
Commissioner

To: The Honorable Gary R. Herbert, Governor, State of Utah
Legislative Management Committee, Utah Legislature
Public Utilities and Technology Interim Committee, Utah Legislature

Re: Report required by Utah Code Ann. § 54-1-13, Docket No. 13-057-02

Date: September 20, 2013

The Public Service Commission of Utah ("PSC") presents this Report pursuant to Utah Code Ann. § 54-1-13, enacted in S.B. 275 (2013), Energy Amendments, sponsored by Senator J. Stuart Adams ("S.B. 275"). That section requires the PSC to:

(1) . . . 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 the infrastructure and maintenance and other 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 ways to overcome any obstacles to converting to alternative fuel vehicles and to enhancing and expanding the infrastructure and facilities for alternative fuel vehicles.

That section also requires the PSC to report the results of its proceedings and "recommendations for specific actions to implement mechanisms to provide funding for the enhancement and expansion of the infrastructure and facilities for alternative fuel vehicles."

PROCESS

S.B. 275 became effective on March 28, 2013. The PSC opened a docket,¹ issued a Notice of Preliminary Scheduling Conference on April 4, and held the Preliminary Scheduling Conference on April 12. On April 18 the PSC issued a Scheduling Order and Notice of Public Hearing. That Order and Notice scheduled a technical conference for May 22, provided deadlines for submission of written initial comments² and written reply comments,³ and scheduled two public hearings for August 7 and 8.⁴ The technical conference, written comment deadlines, and hearings⁵ all occurred as originally scheduled.

All documents in connection with this docket, including initial and reply comments and the audio files and transcripts of the two public hearings, are available on the PSC website, <http://psc.utah.gov/utilities/gas/gasindx/2013/1305702indx.html>.

While the statutory mandate of this docket is designed to result in cleaner air in Utah, no participant presented primary air quality studies.⁶ Moreover, the PSC does not have expertise in air quality science. While the PSC evaluates requests for cost recovery of air pollution mitigation expenses, in these evaluations we rely on the expertise of other government agencies that conduct air quality studies and establish regulatory requirements.

POSITIONS OF PARTICIPANTS - SUMMARIES

During these proceedings, the PSC received both written comments and public hearing testimony and presentations. Throughout the entire process, the PSC was impressed with the perspectives and thoughtfulness of all participants. While there were some areas of disagreement, there were issues on which many participants agreed. Summaries of the positions expressed by the participants are included below.⁷

¹ In the Matter of the Investigation Required by S.B. 275, Energy Amendments, Addressing Cleaner Air through the Enhanced use of Alternative Fuel Vehicles, Docket No. 13-057-02.

² The deadline for written initial comments was Wednesday, July 3, 2013.

³ The deadline for written reply comments was Thursday, August 1, 2013.

⁴ August 7, 2013 was designated for testimony and presentations based on initial and reply comments. August 8, 2013 was designated for public witness testimony.

⁵ The PSC also held a pre-hearing conference on August 5, 2013. The notice for that conference was issued on May 22, 2013.

⁶ Some participants made useful references to existing air quality studies.

⁷ For assistance with clarity of these summaries, the PSC notes that some parties make specific reference to compressed natural gas ("CNG") vehicles, a sub-category of natural gas vehicles ("NGV" or "NGVs"). Some parties refer generally to NGV or to the broader category of alternative fuel vehicles ("AFV" or "AFVs"), and several include specific discussion of electric vehicles ("EV" or "EVs").

Questar Gas Company ("Questar"). Initial data provided at the May 22, 2013 technical conference; written comments filed July 3, 2013; testimony given at the August 7, 2013 public hearing.

At the technical conference, Questar provided data on its current investment in CNG fueling stations and potential rate impacts of different interpretations of the cost recovery provisions of S.B. 275. In its written comments, the company noted Utah's increasing air quality problems, much of which can be attributed to vehicles. The company referred to Governor Herbert's 10-year Strategic Energy Plan and also noted various recommendations made recently by Utah Physicians for a Healthy Environment.

Questar provided an analysis of the costs of CNG buses and fleets including costs associated with purchasing or converting vehicles, fueling station costs, and annual fuel cost savings. Using that information, the company estimated Utah Transit Authority could recoup its incremental purchase costs for a CNG bus in approximately 2.5 years (clarifying during the public hearing that the calculations were based on a simple payback for a CNG bus purchase). Noting that two hurdles exist to convert fleets to run on CNG, Questar stated it stands ready to assist with the first (funding to construct CNG fueling stations), but believes governmental and quasi-governmental agencies should address the second (funding to purchase and maintain CNG vehicles).

Questar summarized its efforts since 1988 resulting in over 29 CNG fueling stations in Utah. After providing an analysis of fueling station costs and the cost recovery provisions of S.B. 275, Questar took the position that to avoid having its customers fund an unfair portion of the burden of CNG fueling stations, the \$5 million cap established in S.B. 275 should remain in place and the investment should be limited to CNG fueling stations for governmental entities and the public. The company also stated that its utility rates should not fund vehicle purchases or vehicle maintenance facilities.

During the public hearing, Questar provided additional information on the 50% revenue hurdle attached to the cost recovery provisions of S.B. 275 and addressed what the company believes to be a misunderstanding among some that the bill creates a \$5 million revolving fund. The company expressed support for expanding Utah's current laws to further address EVs and other issues, and stated that natural gas needs to be part of Utah's clean air solution.

The Division of Public Utilities ("Division"). Written comments filed July 3, 2013; testimony given at the August 7, 2013 public hearing.

The Division, a state agency with duties including investigation and study of matters under PSC jurisdiction, discussed the reasons it believes S.B. 275's primary goal of improving air quality can best be achieved with a focus on large trucks and buses, noting the air quality impact of older and larger vehicles switching to natural gas is greater than the impact of converting a similar number of smaller vehicles. The Division quoted a 2013 report of the U.S. Energy Information Administration providing further support for a focus on large heavy-duty vehicles.

Noting Questar's significant contribution to Utah's CNG infrastructure and the current extensive cooperation between Questar and private and municipal fueling stations, the Division stated that a robust fueling infrastructure will depend on competition. While many stations are currently matching Questar's CNG prices, that dynamic could change as the competitive marketplace develops or if Questar moved the operation of its CNG fueling stations to an unregulated entity like Questar Fueling.

The Division recommended that the Legislature or the Alternative Energy Interlocal Entity created by S.B. 275 ("interlocal entity") provide clarity on whether the cost recovery provisions of S.B. 275 intend for the \$5 million annual expenditures to include operation and maintenance expenses for existing stations. The Division noted that utility rates collected by Questar should not be subject to decision-making by another entity regarding the use of those funds for a specific project. The Division recommended the Legislature consider other potential funding sources to expand infrastructure for AFVs including a fuel tax or a surcharge on current NGV users.

The Division noted several governmental entities in Utah that have purchased AFVs and fueling stations without using utility-funded subsidies and stated that if Questar is used as the primary developer of fueling infrastructure, the government entities that benefit from the infrastructure should bear some of the expense or purchase obligation. Noting that resources should be given to projects with the greatest impact on air quality, the Division recommended the interlocal entity should seek assistance from air quality regulators to establish criteria considering areas with the greatest air quality needs, facility and infrastructure needs vs. equipment conversion, vehicle conversion vs. purchase, number of vehicles converted or retired per dollar spent, access for retail customers, preference for greater vehicle miles traveled, geographical equity, and density of current refueling stations.

The Division suggested further study of the potential impact of cleaner diesel technology on air quality in comparison to NGVs. It also noted increased conversions to NGVs could require a change to the current taxing structure used to maintain roads and bridges.

The Office of Consumer Services ("Office"). Written comments filed July 3, 2013; reply comments filed August 1, 2013; testimony given at the August 7, 2013 public hearing.

The Office began by noting its statutory responsibility to advocate positions advantageous to residential and small commercial utility consumers. Quoting the U.S. Department of Energy Alternative Fuels Data Center, the Office noted AFVs include biodiesel, electricity, ethanol, hydrogen, natural gas, and propane and argued for a comprehensive comparison of the performance, benefits, and challenges associated with each type.

The Office asserted that if a public utility provides any service related to AFVs, it should do so at cost of service without any subsidy through utility rates. The Office noted that utility rate subsidies are anti-competitive, have negative economic impacts, create disproportionate utility customer impacts, and ignore inherent cost advantages of AFVs. The Office suggested that instead of subsidies from public utility rates, more appropriate sources to fund AFV

infrastructure include a gasoline tax, a miles-driven tax, vehicle registration fees, the general fund, and public budgets.

The Office recommended a broad methodology to address air quality by identifying the specific problem, identifying cost-effective methods of solving the problem, and providing transparent funding methods. The Office noted that to the extent public utility rates are used to subsidize AFV development, those subsidies should be evaluated under the ratemaking principles of cost-effectiveness and cost causation.

In its reply comments, the Office discussed its interpretation of how the cost recovery provisions of S.B. 275 should be interpreted, stated that any clarification should come from the Legislature rather than from the interlocal entity, and agreed with the sentiment of other parties that the revenue collected by Questar under S.B. 275 cannot be used by other entities to obtain CNG fueling stations. The Office encouraged the interlocal entity to recognize those other entities as partners in furthering the objectives of S.B. 275. The Office stated that time of day electric rates to address EV development are not in the public interest.

The Office recommended maintaining cost of service regulation for the provision of natural gas, establishing cost of service rates for public utility provision of NGV fuel, encouraging a more robust NGV fuel market, establishing a proper framework for the development of EVs, allowing public utilities to focus on providing utility service, collecting the best air quality data possible to pursue the most cost-effective solutions, considering AFV options other than natural gas, and funding mechanisms that are transparent with costs assigned to those who either cause the problem or benefit from the solution.

Clean Energy. Written comments filed July 3, 2013; reply comments filed on August 2, 2013; testimony given at the August 7, 2013 public hearing.

Clean Energy identified itself as a company that has over 425 NGV fueling stations nationwide but does not operate in Utah because it claims the Utah NGV market is unfair. Clean Energy argued that S.B. 275 encourages a utility to use its monopoly powers to unfairly compete with others in the NGV market and will harm Utah's NGV fueling industry. Clean Energy takes the position that Questar should form a non-affiliated subsidiary for NGV infrastructure that cannot use ratepayer funds, and that ratepayer funds should be limited to the construction of NGV fueling stations located on utility property that are necessary to refuel the utility's fleet of NGVs.

Clean Energy states local governments can assist in the expansion of NGV development by converting their fleets to encourage private development of fueling stations. Clean Energy further suggested the following options to enhance NGV adoption: home refueling incentives, customer education and information, vehicle demonstration and deployment, utility NGV fleet purchases to encourage aggregation and standardization of fleet vehicle purchases, location of infrastructure to impact costs and distribution pressure, and financial incentives to utilities to build the necessary infrastructure to provide natural gas to NGV fueling stations.

In its reply comments, Clean Energy argues Questar is not the ideal entity to provide CNG fueling stations. Clean Energy noted California does not allow utilities to participate in the NGV fueling market but has a robust competitive environment with approximately 600 fueling stations. Clean Energy also recommended consideration of incentives for NGV home refueling options.

Mark D. Larsen. Written comments filed June 17, 2013; testimony given at the August 7, 2013 public hearing.

Mr. Larsen, participating on his own behalf, presented some of the data he maintains on his personal website related to EVs. He noted the disparity between the state tax incentives for the purchase of an NGV (\$2,500) compared to an EV (\$605). He demonstrated for the Commission an online tool he developed to compare costs, savings, and emissions for specific examples of gasoline vehicles, EVs, and NGVs. Based on his analysis, Mr. Larsen contended that EVs are superior to NGVs.

Josh Edson. Written comments filed June 26, 2013.

Mr. Edson, participating on his own behalf, submitted written comments expressing support for increasing the tax incentive for EVs and for Mr. Larsen's analysis.

Utah Transit Authority. Written comments filed July 1, 2013.

UTA noted its support for the objectives of S.B. 275 and the interlocal entity and addressed its long-term plans and goals to use AFVs. UTA stated the goals of improving air quality through AFVs will require collaboration between governmental entities, gas corporations, and private enterprise.

The Southwest Energy Efficiency Project ("SWEEP") and Utah Clean Energy ("UCE"). Joint written comments filed July 2, 2013; joint reply comments filed August 1, 2013; joint testimony given at the August 7, 2013 public hearing.

SWEEP and UCE recommended policies to enhance the use of EVs in Utah. After presenting some data on emissions and fuel cost savings, the entities recommended the following policies: allow the commercial resale of electricity for EV charging, create an EV electricity rate tariff, bring parity to the state tax credit for EV and NGV purchases, create EV-ready requirements in building codes, implement an annual decal fee on EVs to pay for roadway infrastructure and charging stations, adoption of EVs in government fleets, and development of a strategic plan for deployment of EV charging infrastructure.

SWEEP and UCE provided data from an analysis conducted by SWEEP analyzing EVs in Utah including benefits, emissions, economic analysis, current barriers, and potential policy issues. That data and analysis were presented to support the recommendations listed in the preceding paragraph. SWEEP and UCE also provided examples from other jurisdictions where some of those recommendations have been implemented.

SWEEP and UCE discussed the Tier 3 emission standards proposed by the U.S. Environmental Protection Agency and potential impacts on gasoline and light-duty vehicles, and further suggested consideration of tax incentives for leased EVs.

Wasatch Clean Air Coalition. Written comments filed July 2, 2013; testimony given at the August 8, 2013 public hearing.

Kathy Van Dame of the Wasatch Clean Air Coalition provided written comments comparing emissions from older NGVs and newer gasoline vehicles and recommended that used AFVs should not receive tax incentives. In her public hearing testimony, Ms. Van Dame discussed some of the historical intersection between air quality and the PSC and emphasized the need for agencies to provide quality testimony to the Legislature. She expressed the opinion that while NGVs may make sense for large vehicles like garbage trucks, she believes EVs make more sense for smaller passenger vehicles.

CNG America. Written comments filed July 2 and 3, 2013; testimony given at the August 7, 2013 public hearing.

Kim Hugie of CNG America noted that his company owns four publicly available CNG fueling stations. He expressed appreciation for the contribution of Questar to Utah's fueling infrastructure. He further expressed support for free market principles and a willingness to participate in a market with Questar as a competitor, and stated his opposition to policies that could allow Questar to use \$5 million of utility rate recovery for CNG fueling stations. Mr. Hugie asserted the rate recovery gives Questar an unfair competitive advantage and urged that any financial incentive should be available to all businesses. Mr. Hugie suggested that the \$5 million collected by Questar should be managed by a nonprofit company and given through grants to any qualifying company. He also discussed the potential future growth of both CNG vehicles and EVs, expressing the position that incentives should be directed toward vehicle conversions and purchases because as more AFVs are in use, the demand for fueling stations will naturally increase and the stations will be provided by the market.

Fuel Freedom Foundation. Written comments filed July 3, 2013.

Fuel Freedom Foundation ("FFF") expressed support for the continued development of CNG fueling stations and infrastructure to support other fuels including ethanol and methanol. FFF noted grants and loans currently available through the Utah Department of Environmental Quality, and proposed that the definition of clean fuel for purposes of those grants and loans should be amended to include ethanol, methanol, and other fuels derived from natural gas. FFF also recommended a similar definitional expansion for the statute addressing the current \$2,500 tax incentive for CNG vehicle purchases and for the statute setting the tax rate for clean fuel.

FFF recommends that local planning and zoning authorities should treat alternative fuel facilities the same as gasoline and diesel fueling stations, and suggested a state policy assuring a level playing field among all alternative fuels. FFF recommends an emphasis on public education to make consumers aware of all fuel choices.

FFF recommends that alternative fuel initiatives should receive proper credit in the Fine Particulate Matter State Implementation Plan and any potential future Ozone State Implementation Plan, and recommends Utah's Air Quality Board be given expanded authority to require fleet conversions in more circumstances. FFF made some specific recommendations for the development of a mission statement by the interlocal entity, and encouraged the interlocal entity to create working groups to allow greater stakeholder input.

AARP Utah. Written comments filed July 3, 2013.

AARP Utah expressed concerns with the financing of NGV fueling stations through home utility bills and recommended that any subsidy should be clearly disclosed on the residential bill. The organization suggested that infrastructure improvements should be paid for by those most likely to use the infrastructure.

Integrys Transportation Fuels, LLC ("Integrys"). Written comments filed July 3, 2013.

Integrys expressed concerns with the implications of regulated utility participation in the CNG market. Noting that it is an active service provider in the CNG market in several states, Integrys articulated reasons it believes utility participation in the market is unfair and disadvantages companies like Integrys. Integrys argued that a utility participating in the CNG market should do so through a non-regulated affiliate, and encouraged the PSC to exercise exceptional care in monitoring a utility's participation in the CNG market.

Utah Association of Energy Users ("UAE"). Written comments filed July 3, 2013.

UAE expressed support for efforts to promote clean air and enhance NGV usage, but strongly opposed the use of utility rates to fund policies and programs not directly related to or required by the provision of utility service. UAE asserted the cost recovery provisions of S.B. 275 violate three ratemaking principles: limitation of public utility activities to those properly required of a regulated monopoly, assignment of costs to customer classes who benefit from a public utility's expenditures, and strict limitations on using public utility rates to fund or subsidize (worthy) public policies or programs.

UAE further argued the cost recovery provisions of S.B. 275 lack transparency by creating a new tax that will be largely hidden in utility rates, and noted UAE's members are already making significant direct and indirect investments in cleaner air. UAE noted Questar originally received rate recovery from the PSC for NGV fueling stations in 2009 when the industry was new and struggling and argued that is no longer the case. UAE stated continued rate recovery for NGV stations could have a negative impact on economic development.

Claire Geddes, Consumer Advocate. Written comments filed July 3, 2013; testimony given at the August 7, 2013 public hearing.

Ms. Geddes argued S.B. 275 impedes a robust NGV market by allowing Questar to use its monopoly power and forcing captive ratepayers to further subsidize NGV fueling stations.

She pointed to a provision of the Utah Constitution⁸ stating Utah policy for a free market system. She argued S.B. 275 imposes a hidden tax that is regressive with a disproportionate impact on seniors and low income households.

Ms. Geddes made claims relative to what she believes to be the motivation of some parties and argued that a better solution for improving Utah's air quality is contained in the U.S. Environmental Protection Agency's Tier 3 standards. She also expressed support for a focus on exhaust from wood stoves, fireplaces, and cooking grills rather than a focus on NGVs.

HEAL Utah ("HEAL"). Written comments filed July 3, 2013; reply comments filed August 1, 2013; testimony given at the August 7, 2013 public hearing.

HEAL provided data and arguments indicating that for bus fleets, new diesel buses might be superior to CNG buses for both emissions reduction and costs, and that for private passenger vehicles, EVs may be a better option than CNG vehicles. HEAL discussed EVs at length stating they are more efficient, require less infrastructure, and are preferred by consumers over CNG vehicles. HEAL also noted that current state policy favors CNG vehicles over EVs through tax incentives, the Clean Fuel Vehicle Grant and Loan Program, and allowing individual consumers to purchase CNG from state-operated fueling stations under some circumstances.

While recognizing that it does not have access to some of the underlying internal calculations, HEAL criticized some of the NGV infrastructure cost data provided by Questar and also criticized Questar's estimates related to the time required to recapture the initial investment in a CNG bus. HEAL endorsed and adopted the following set of recommendations⁹: allow the commercial resale of electricity for EV charging, create an EV electricity rate tariff, bring parity to the state tax credit for EV and NGV purchases, create EV-ready requirements in building codes, implement an annual decal fee on EVs to pay for roadway infrastructure and charging stations, adoption of EVs in government fleets, and development of a strategic plan for deployment of EV charging infrastructure.

Blu. Written comments filed July 3, 2013; testimony given at the August 7, 2013 public hearing.

Blu identified itself as a Salt Lake City based company that provides NGV and other AFV fueling stations in Utah and around the United States. Noting that Utah has one of the most developed NGV infrastructures in the country, Blu stated the current need in Utah is for more vehicles using the existing fueling stations. Blu expressed its concerns with S.B. 275, arguing it gives an unfair competitive advantage to Questar and the interlocal entity and that private enterprise should be encouraged and given preference to build fueling facilities. Blu stated it believes the goals and objectives of S.B. 275 are not clear and encouraged further collaboration with industry representatives to establish more specific goals.

Blu provided data indicating that converting one heavy-duty truck to natural gas produces the same environmental benefit of converting over thirty passenger vehicles. Blu also noted that

⁸ Utah Constitution Article XII, Section 20.

⁹ These recommendations were previously proposed by SWEEP and UCE.

heavy duty trucks comprise about 17% of Wasatch Front traffic while accounting for nearly 40% of CO₂ emissions from traffic. Blu opined that under S.B. 275, Questar is able to build NGV fueling stations without the same risk that others in the market must undertake to compete against Questar. Blu recommended that government agencies and regulated utilities should not be allowed to exert competitive advantages over the private sector.

Utah Moms for Clean Air. Written comments filed July 18, 2013.

Utah Moms for Clean Air recommended parity for state tax incentives for NGV and EV purchases and noted some emissions benefits of EVs over NGVs.

Enterprise Rent-A-Car ("Enterprise"). Written comments filed July 29, 2013.

Enterprise expressed support for any policy that addresses cleaner air through the adoption of AFVs and noted its incorporation of EVs into its fleet. Enterprise stated obstacles to EV adoption include a fear of a lack of charging stations and upfront capital costs. Enterprise made the following recommendations: allow the commercial resale of electricity for EV charging, create an EV electricity rate tariff, bring parity to the state tax credit for EV and NGV purchases, create EV-ready requirements in building codes, implement an annual decal fee on EVs to pay for roadway infrastructure and charging stations, adoption of EVs in government fleets, and development of a strategic plan for deployment of EV charging infrastructure.

Blue Star Gas. Testimony given at the August 7, 2013 public hearing.

Blue Star Gas identified itself as a business that converts vehicles to run on propane and expressed concern at the lack of support the propane industry receives in terms of credits and incentives. The company made the argument that propane vehicles carry lower costs for conversions and for fueling stations than CNG. Blue Star Gas encouraged increased consideration of propane and recommended a phase-out of the current \$2,500 vehicle purchase tax credit rather than doing away with it at the end of 2014.

Electric Car Company. Testimony given at the August 7, 2013 public hearing.

Carl Clark of Electric Car Company indicated that in the past he was in the business of converting vehicles to run on both propane and natural gas. He discussed some of the early challenges and liabilities that faced NGVs, the reasons he left the industry, and some of the current advantages of EVs. Noting that all major vehicle manufacturers are either producing or working on EVs, he stated that electricity is cheaper than other fuels. Mr. Clark noted some of the current challenges and developments related to batteries and other EV technologies and stated that taxpayer funds should not be used to support CNG fueling stations.

Summit County. Testimony given at the August 7, 2013 public hearing.

Lisa Yoder with Summit County noted that the single private CNG fueling station in Summit County is not convenient for the county fleet, and stated that Questar is vital to the possibility of getting a CNG station to serve the Summit County fleet as well as the public. She

stated that the Summit County budget can cover vehicle costs but not fueling stations and expressed that the private market has not provided the CNG infrastructure the county needs.

Noting that Summit County supports all AFVs, Ms. Yoder expressed support for S.B. 275 and the help it could provide Questar to build additional CNG infrastructure for use by the Summit County fleet and the public.

Crossroads Urban Center. Testimony given at the August 8, 2013 public hearing.

Timothy J. Funk with Crossroads Urban Center provided data supporting his assertion that the poverty reach in Utah is wide and varied. He explained that for many, the problems associated with poverty are getting worse. Mr. Funk argued against policies that impose costs on the poor and offset those costs with subsidies. He expressed that those policies are bad for the poor because the subsidies are expensive to run, are used by a minority of those eligible, and do not work.

Mr. Funk stated that there could not be a worse time for a utility rate increase, expressed the concern that many factors are hurting the poor, and stated S.B. 275 will take away even more from the poor. He also argued S.B. 275 is anti-competitive and will negatively affect economic development.

PSC RECOMMENDATIONS

Utah Code Ann. § 54-1-13(3)(b) requires the PSC to make "recommendations for specific actions to implement mechanisms to provide funding for the enhancement and expansion of the infrastructure and facilities for alternative fuel vehicles." After careful consideration of the information, positions, and options presented in this docket, the PSC makes the following recommendations.

By making these recommendations, the PSC is not expressing disapproval of any of the other recommendations presented in this docket. All participants presented informative points of view and potential specific actions. Many are worthy of further consideration. The PSC believes, though, that the following recommendations received significant and persuasive support in this docket and should receive immediate consideration.

I. The PSC recommends the Legislature consider an amendment to clarify Utah Code Ann. § 54-4-13.4.

Some participants noted that Utah Code Ann. § 54-4-13.4 does not directly address the issue of whether the \$5 million a gas corporation may recover for NGV fueling stations is intended to include operation and maintenance expenses for existing NGV fueling stations. The testimony in this docket indicated that the issue is not likely to come to the PSC for a decision before the next general rate case filed by Questar.¹⁰ Therefore, the PSC recommends the Legislature consider clarifying this issue with explicit statutory language.

¹⁰ In its general rate case currently pending before the PSC (Docket No. 13-057-05) and scheduled for a hearing in January 2014, Questar did not seek cost recovery under Utah Code Ann. § 54-4-13.4. Questar indicated during the hearing on

II. The PSC recommends the Legislature consider incentives to increase the number of NGVs among Utah's large trucks, buses, and fleet vehicles while maintaining and strengthening Utah's current viable and competitive market for NGV fueling stations.

Many participants noted Utah could receive a positive air quality benefit from an increase in the number of NGV vehicles within public and private fleets of heavy-duty vehicles. The PSC did not receive any specific data from the participants in this docket indicating exactly what specific air quality benefit Utah would experience as a result of a specific number of heavy-duty diesel vehicles being replaced with NGV equivalents. However, there was uncontested evidence that replacing heavy-duty vehicles provides a more immediate impact than replacing smaller vehicles.

As S.B. 275 recognized, the availability of fueling stations is critical to the increased use of NGVs. Many participants noted the current viable and growing competitive market that exists in Utah for NGV refueling stations. Those participants suggested that state policy should support the expansion of that competitive market without choosing winners and losers.

Funding options the Legislature could consider for development of fueling infrastructure include:¹¹

- Expansion of Utah's existing fuel tax with a portion of revenue earmarked for the construction of NGV fueling stations.
- A municipal energy tax similarly earmarked for the construction of NGV fueling stations.
- An "opt-in" voluntary-contribution program by which utility customers could opt to contribute money to advance NGV fueling stations or vehicle purchases.
- A miles-driven tax, NGV registration fees, or NGV decal fees.
- State or federal grants.

Under any of these options, the interlocal entity could assist with the decision-making relative to the use of the funds. Each of these options has the potential to enhance Utah's current competitive market for AFV fueling stations while reducing some of the costs associated with incorporating AFVs into public and private fleets.

III. The PSC recommends further consideration of two options to incentivize the development of an EV charging infrastructure.

Among the recommendations in this docket intended to expand EV purchases and related infrastructure, two received broad and unopposed support from participants. First, multiple parties noted that for passenger vehicles, the state tax incentive for the purchase of an EV (\$605) is significantly lower than the state tax incentive for the purchase of an NGV (\$2,500). Many participants discussed the benefits of EVs and suggested increasing the tax incentive to be

August 7, 2013, that it might seek cost recovery under Utah Code Ann. § 54-4-13.4 in a future general rate case if Questar believes the guidelines established in that section have been satisfied.

¹¹ These options are discussed in more detail in the participant comments available at <http://psc.utah.gov/utilities/gas/gasindx/2013/1305702indx.html>.

comparable to that of an NGV. Increasing the number of EVs in Utah could increase demand for EV charging stations, a demand that could be met by the existing competitive market.

Second, participants discussed the issue of the resale of electricity at EV charging stations and argued for a clarification to allow the practice. The issue seems to be whether an entity that makes an EV charging station available for resale to the public is an electrical corporation as defined in Utah Code Ann. § 54-2-1(7). From this docket it appears the potential of being regulated as an electrical corporation is deterring the development of EV charging stations. On September 9, 2013, Rocky Mountain Power asked the PSC to approve revised tariff language stating that general service customers of Rocky Mountain Power may resell electricity in EV charging stations without the transaction being considered the resale of electricity.¹² The PSC is currently scheduled to make a decision on that filing during October 2013. Additionally, participants in this S.B. 275 docket suggested a statutory clarification related to EV charging stations. We recognize this statutory clarification may involve some issues not analyzed in this docket,¹³ and we are ready to provide further assistance if the Legislature decides to pursue this option.

IV. The PSC recommends Utah's utility rates remain free of costs that are not related to or required by the provision of public utility service.

A recurring challenge at the PSC is the need to recognize that we live in a changing world while adhering to the regulatory policies that have served Utah's residents and utilities well for decades. Everyone in Utah benefits when utility rates are just and reasonable, when ratepayers receive good customer service, and when public utilities are financially successful and able to attract capital to invest in infrastructure. Maintaining and balancing those interests also makes Utah an attractive location for economic development.

With those principles in mind, the PSC recommends Utah's utility rates remain free of costs that are not related to or required by the provision of public utility service. Utility customers should have transparency about which portions of their utility bills represent utility rates and which portions represent taxes. Rates should pay for the provision of utility service; tax revenue can and should be used pursuant to legislative prerogative.

In a 2009 general rate case, we approved cost recovery for some investments of Questar in NGV fueling stations. S.B. 275 provided additional guidelines and parameters we must

¹² In the Matter of Rocky Mountain Power's Proposed Changes to Regulation No. 4 "Supply and Use of Service" to Add Language Clarifying that Electric Vehicle (EV) Battery Charging Service is Not Considered Resale of Electricity, Docket No. 13-035-T12, available at: <http://psc.utah.gov/utilities/electric/elecindx/2013/13035T12indx.html>.

¹³ For example, when the California Public Utilities Commission ("CPUC") addressed this issue in 2009, *see* 2010 Cal. PUC LEXIS 295, 283 P.U.R.4th 361, the CPUC explored issues including in-home charging; provision of charging stations by landlords, condominium associations, and employers; procurement requirements related to electricity procured in the wholesale market; the terms under which a public utility provides electricity to an EV charging station provider; potential customer classes for EV charging station providers; and whether the Federal Energy Regulatory Commission ("FERC") has any jurisdiction over the sale of electricity by an investor-owned utility to an EV charging station provider. With respect to the issue of FERC jurisdiction, the CPUC determined in 2009 that there was no FERC jurisdiction, but we are unaware of any FERC precedent addressing the issue.

consider with respect to NGV fueling stations in future rate cases. In light of that background, we support the following recommendations made by Questar:¹⁴

- The \$5 million cap established in S.B. 275 should remain in place and the investment should be limited to CNG fueling stations for governmental entities and the public.
- Questar utility rates should not fund vehicle purchases or vehicle maintenance facilities.

CONCLUSION

We appreciate the opportunity to provide the PSC's perspective on the important issue of improving Utah's air quality. This effort provided us the opportunity to explore some of the points at which public utility policy and air quality intersect. These two areas affect all Utahns in profound ways. We hope policy-makers will find this report useful.

Respectfully submitted,

Ron Allen, Chairman

David R. Clark, Commissioner

Thad LeVar, Commissioner

¹⁴ See Comments of Questar Gas Company, July 3, 2013, p. 9.