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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Public Service Commission

From: Office of Consumer Services
Michele Beck, Director
Gavin Mangelson, Utility Analyst

Date: October 25, 2016

Subject: Docket 16-057-11

In the Matter of: The Application of Questar Gas Company to Amortize the Demand Side Management/Energy Efficiency Deferred Account Balance.

Background

On September 29, 2016 Questar Gas Company (Company) filed with the Public Service Commission (Commission) an application to change the DSM Amortization rate (DSM rate) along with supporting exhibits. This rate is listed in Section 2.02 of the Questar Gas Company tariff.[1]

Shortly after posting a Notice of Scheduling Conference, the Commission posted a Notice to Parties Concerning Upcoming Scheduling Conference in which the Commission asked the Company to come to the scheduling conference prepared to discuss an apparent inconsistency in the proposed DSM rate and the projected amortization amount. At the October 6, 2016 scheduling conference the Company stated that they would file a correction to the pertinent exhibits.

The Public Service Commission posted a Scheduling Order on October 6, 2016, and the Company filed a corrected exhibit 1.3 (Exhibit 1.3U) with an explanation of the changes on October 7, 2016. The Company also filed corrections to exhibits 1.4-1.5 on October 12, 2016.

[1] This filing was made in conjunction with five other dockets containing pass-through proposals.

The Office of Consumer Services (Office) participated in the October 6, 2016 scheduling conference as well as the discussions about the need for a correction to exhibit 1.3 that occurred as part of that meeting. The Office analyzed the materials filed by the Company in this docket including the corrected exhibits. The Office also participated in an additional meeting with the Company and Division of Public Utilities on October 24, 2016 regarding the Supplemental Action Request posted by the Commission on October 13, 2016. It is the understanding of the Office that the Company intends to file another update to Exhibit 1.3 (Exhibit 1.3U2) on October 25, 2016.

Discussion

According to Exhibit 1.3U, the 182.4 deferred expense account (182.4 account) began the calendar year 2016 at a negative balance, achieved a zero balance in August before entering a positive balance, and is expected to be reduced to a negative balance again before the end of October 2016. At the current DSM rate of $0.24341 the 182.4 account is forecasted to remain in a negative balance through 2017. The Company is therefore applying to reduce the rate to $0.19385, thereby reducing the resulting over collection and associated carrying charges paid by the Company. This proposed rate is expected to result in the 182.4 account achieving a positive balance by June 2017.

When the Company filed Exhibit 1.3U, it included a description of the Company's intent to file an application to adjust the DSM rate again in June 2017 and "twice per year going forward." Therefore Exhibit 1.3U demonstrates the forecasted balance projections reflecting a rate of $0.19385 for November 2016 through May 2017, and a return to rate $0.24341 for May 2017 through the end of October 2017 (Exhibit 1.3U also provides the forecast through the end of the calendar year 2017).

This scenario would provide a lower rate during the heating season when ratepayers are using more dekatherms, and a higher rate during the warmer months when ratepayers use fewer dekatherms, thereby producing a flatter curve to the projected revenue collected under the DSM rate.

Typical Amortization vs. 182.4 Account

Typical amortization generally refers to a known expense that is paid for in fixed increments over a set period of time, such as one year. In contrast, the DSM rate is calculated in order to pay for forecasted expenses using forecasted revenues. Because the rate is volumetric, the revenue collected under this rate will increase and decrease as usage increases and decreases. Therefore, DSM revenues will be higher in cooler months and lower in warmer ones. According to the Company's filing, DSM costs are relatively consistent throughout the year; combining consistent costs with fluctuating income will necessarily result in fluctuations of the 182.4 account's balance in the short term.

Carrying Charges

The Office and other parties have advocated for accounts that are managed to zero or near zero balances. One purpose for this policy has been to mitigate carrying charge expense. However, given the necessary fluctuations in the 182.4 account balance, a zero or near zero balance throughout a 12-month period would only be possible with an ever changing DSM rate in order to constantly match revenues with costs. A more realistic approach is not to eliminate fluctuations in the account balance, but to establish rates that will consistently bring the account to zero or near zero in the short term. Thus, the Office asserts that a more effective metric would be to set a rate that will match the carrying charge paid by the Company and by the ratepayers over the course of the year (i.e. a net zero carrying charge expense.)

Biannual Rate Adjustments

The Company proposes to more closely manage the 182.4 account balance by adjusting the rate "twice per year", presumably once in the spring and once in the fall. However, low volumes in the summer and high volumes in the winter will likely result in higher summer rates and lower winter rates in order to avoid large over and under collections. Therefore, the twice a year adjustments will have the effect of creating seasonal blocks for the DSM rate. Seasonal blocks are a fair and effective rate design when there are clear elements of cost causation that can be attributed to the season. In regards to the DSM rate, the Company has not made a cost-causation to justify something that appears to be a seasonal rate differential. Therefore the Office does not support a policy of biannual rate adjustments if those adjustments will likely result in rate changes similar to seasonal block rates.

The Office notes that according to Exhibit 1.3U, the proposed rate of $0.19385 coupled with an expected rate of $0.24341 starting in June 2017 results in a net zero carrying charge expense over the November 2016 – October 2017 time period[2]. As an alternative, applying a rate of $0.19674 to the model in Exhibit 1.3U continually over the same time period also results in a net zero carrying charge expense. The Office asserts that a policy of attaining a net zero carrying charge will be more effective in managing the 182.4 account balance than biannual rate adjustments. This net zero may be attained over a single year or over 24-36 months if necessary for the benefit of ratepayers.

As previously mentioned, the Office anticipates that the Company will file another update to Exhibit 1.3 (Exhibit 1.3U2) and that according to this update the appropriate rate for the duration of the 12-month period should be $0.19054. This rate is forecasted to result in a net zero carrying charge expense.

Recommendation

The Office recommends that the Commission reject the proposed DSM rate of $0.19385, and require the Company to adopt the rate of $0.19054.

Copies To: Questar Gas Company
Barrie McKay, VP Regulatory Affairs

Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager

[2] Exhibit 1.3U, page 2, cell D6, listed as "Net Interest"