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Committee of Consumer Services (“Committee”), Gary Dodge, of the law firm Hatch, James & Dodge, appeared on behalf of the Utah Association of Energy Users (“UAE”), Sarah Wright appeared on behalf of Utah Clean Energy and Southwest Energy Efficiency Project (“UCE/SWEEP”), Elizabeth Wolf appeared on behalf of the Salt Lake Community Action Program and Crossroads Urban Center, collectively Utah Ratepayers Alliance (“URA”), and William Evans, of the law firm Parsons Behle & Latimer, appeared on behalf of the Utah Industrial Gas Users (“IGU”).

PROCEDURAL HISTORY

This proceeding results from the Settlement Stipulation dated September 12, 2006, and approved by the Commission in its Order Approving Settlement Stipulation issued October 5, 2006. Among its terms, the Settlement Stipulation calls for a one-year review of the CET at which time parties have the opportunity to propose alternatives to or support continuation of the CET for the remaining two years of the three-year Pilot Program.

In accordance with the terms of the Settlement Stipulation and the Order Approving Settlement Stipulation, a Technical Conference was held on April 19, 2007, Direct Testimony was filed by the Company, the Division and the Committee on June 1, 2007, Position Statements were filed by UAE, UCE/SWEEP and URA also on June 1, 2007, and a Scheduling Conference was held on June 5, 2007. Direct Testimony was filed by Barrie L. McKay, Manager of State Regulatory Affairs for Questar Gas, Marlin H. Barrow, Technical Consultant for the Division, Daniel G. Hansen of Christensen Associates Energy Consulting, LLC, on behalf

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of the Division, and David E. Dismukes of Acadian Consulting Group on behalf of the Committee.

Pursuant to the Scheduling Order issued June 19, 2007, Rebuttal Testimony was filed on August 8, 2007, by Barrie L. McKay and Russell A. Feingold, a Managing Director of Navigant Consulting, Inc., on behalf of the Company, Marlin H. Barrow, Daniel G. Hansen, and Artie Powell, Manager of the Energy Section, all three on behalf of the Division, David E. Dismukes on behalf of the Committee, and Kevin Higgins, a Principal of Energy Strategies, LLC, on behalf of UAE. Surrebuttal Testimony was filed on August 31, 2007, by Barrie L. McKay and Russell A. Feingold for the Company, Daniel G. Hansen for the Division, David E. Dismukes for the Committee, and Sarah Wright, Executive Director of UCE for UCE/SWEEP.

On August 27, 2007, the Commission issued a Notice of Separation of DSM Evaluation Plan Issues Into Separate Docket, whereby Docket No. 07-057-05 was created to consider issues related to the evaluation of the Company's Demand Side Management ("DSM") programs, DSM being a component, along with the CET, of the Pilot Program. Hence, this proceeding deals only with the CET during the remaining two years of the Pilot Program. Pursuant to the Scheduling Order issued June 19, 2007, the Commission held a hearing on September 18 and 19, 2007, and held a public witness hearing on September 18, 2007.

On September 17, 2007, the day before the hearings began, the Company filed an objection to, and the Division filed a motion to strike, certain portions of the Surrebuttal Testimony of Committee witness David E. Dismukes. Both the Company and Division argue portions of his Surrebuttal Testimony should have been filed as Rebuttal Testimony. During the

hearing, the Commission denied these petitions, allowed Dr. Dismukes' testimony to remain on the record, permitted the Company and Division to respond to his testimony through live surrebuttal, requested Dr. Dismukes disclose to the Company and Division the source of disputed data, and allowed the Company and the Division the opportunity to respond to Dr. Dismukes' testimony in writing after the hearing.<sup>1</sup>

On September 20, 2007, Dr. Dismukes identified to the Company and Division the source of the disputed data, provided them a duplicate copy of the data upon which he relied, and so notified the Commission. On September 26, 2007, Sarah Wright for UCE/SWEEP filed supplemental information, responding to questions asked of her during the hearing and clarifying her Surrebuttal Testimony. On September 27, 2007, Barrie L. McKay for the Company, and David G. Hansen and Artie Powell for the Division, filed their responses to Dr. Dismukes' Surrebuttal Testimony.

#### POSITIONS OF THE PARTIES

In accordance with the terms of the Settlement Stipulation and the Order Approving Settlement Stipulation issued October 5, 2006, parties provide testimony regarding the continuance of the CET over the two remaining years of the Pilot Program. We review the parties' positions on this issue.

The Company recommends continuance of the CET through the remaining two years of the Pilot Program, stating the CET is a simple mechanism permitting the Company to collect the Commission-allowed DNG revenue, nothing more and nothing less, and enabling the

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<sup>1</sup> See December 18, 2007, Hearing Transcript, p. 15-21; December 19, 2007, Hearing Transcript, p. 256, 261-263, 364-381.

Company to aggressively promote energy efficiency. The Company contends the CET aligns the interests of the Company and regulators by helping customers to achieve greater energy efficiency. The Company provides testimony on recent industry and state trends relating to revenue decoupling. The Company also proposes three modifications to the CET, namely, removal of the limit on the CET program accruals, removal of the limit on the CET program amortizations, and, effective January 1, 2008, modification of the allowed monthly distribution of DNG revenue per customer used in the CET calculation to reflect the average monthly DNG revenue per customer experienced in the immediately preceding 36 months.

The Division supports the continuation of the CET as long as the Company continues to support and promote DSM programs which help the Company's customers reduce their usage of natural gas and which, in turn, may help in reducing the retail price of natural gas. In addition, the Division supports the Company's proposal to remove the limit on the CET program accruals and to modify the allowed monthly distribution of DNG revenue per customer used in the CET calculation to reflect the average monthly DNG revenue per customer experienced in the immediately preceding 36 months. The Division provides testimony which argues against the basis for a lost revenue adjustment mechanism, voices concerns about the calculation or estimation of lost revenues, evaluates the CET, and describes and evaluates both natural gas decoupling mechanisms currently in use in the United States and alternative methods for addressing a utility's disincentive to promote conservation. The Division also presents the results of natural gas demand analysis to show a shift in economic and commodity price risk

from the utility to its ratepayers is unlikely to occur for Questar Gas from the implementation of the CET.

In contrast to the Company, the Division proposes to retain but modify the limit on the CET program amortizations from 0.5% of the Utah total GS revenues to 2.5% of the Utah DNG GS revenues collected during the previous twelve-month period. In addition, the Division recommends enhanced monitoring and reporting including a breakdown of usage per customer, DNG revenue and number of customers separately for existing and new customers, and a twenty four month, forward-looking financial forecast. Finally, the Division recommends the Commission suspend the CET if the Company does not file a general rate case by December of 2008, and require the Company file a general rate case at least every four years regardless of whether or not a decoupling mechanism is in place. The Division also requests the Commission identify the end date of the CET pilot period.

The Committee proposes the discontinuence of the CET on a forward-going basis and recommends the adoption of a lost revenue adjustment mechanism tied directly to the estimates included in the Company's DSM cost-effectiveness filings, updated according to the ongoing monitoring and verification process, to make the Company whole for changes in usage resulting from its DSM programs. The Committee contends the CET shifts considerable usage-related risks from the Company and its shareholders to ratepayers with little to no offsetting benefits for ratepayers, is overly broad in addressing the problems associated with declining usage per customer trends, and is unnecessary to address incentive issues associated with the promotion of DSM. In addition, mechanisms like the CET eliminate a customer's ability to fully

realize the complete benefits of their actions to reduce consumption. The Committee recommends the Commission direct the Company to address any financial challenges created by decreases in use per customer in its next general rate case through the use of a forecasted test year or some known and measurable adjustment if a historic test year is utilized for ratemaking purposes.

If the Commission decides to continue the CET, the Committee recommends the present accrual and amortization caps be maintained. It also recommends modifying the CET such that the DNG revenue true-ups are based upon the difference in historic and actual use per customer times test year customers, or base year customers upon which the revenue per customer statistic is derived, rather than actual customers. The Committee advocates the Commission recognize the risk-shifting nature of the CET and indicate in its Order this shifting of risk will be considered in setting the Company's return on equity in the Company's next general rate case. The Committee also responds to the Company's representation of revenue decoupling programs across the United States and the Division's natural gas demand analysis.

In closing argument, the Committee also recommends the Commission suspend implementation of the CET and order a general rate case to determine whether the rates determined by the CET are, in fact, just and reasonable, non-preferential and nondiscriminatory. The Committee argues the ratepayer has a right to rely upon such rates as being just and reasonable, which requires the scrutiny of a general rate case. In addition, if the Commission chooses to continue the CET, the Commission should incorporate ratepayer protections such as

an earnings cap, performance targets, adjustments to recovery from lost revenues based upon those performance targets, and limits to the amount that may be amortized.

UAE, while strongly supporting the goal of energy conservation, strongly opposes the use of the revenue decoupling as a proper means of achieving that goal. UAE contends revenue decoupling is a blunt instrument not particularly effective at encouraging conservation, imposes a fundamental and unnecessary change in ratemaking philosophy, shifts undue risks to utility customers without offsetting compensation or consideration, and creates a serious potential for unintended consequences, including misalignment of proper utility incentives, risks, and returns. UAE recommends the Commission give no weight to the Division's conclusion there is no need to consider a reduction in the Company's allowed rate of return to compensate customers for the risk shift from decoupling as the conclusion is overreaching and not adequately supported by analysis. UAE emphasizes the Division's analysis only addresses the question of shifting risk from the Company to customers as opposed to the reduction of the Company's risk attributable to revenue decoupling. As such, argues UAE, the Division's rate of return recommendation completely sidesteps the most fundamental question with respect to the relationship between allowed return on equity, risk, and revenue decoupling.

UCE/SWEEP support the continuation of the Company's CET through the remaining two years of the Pilot Program, stating it is in the public interest. UCE/SWEEP state increasing the energy efficiency of natural gas use provides benefits for the Company's customers, the natural gas supply, the economy and the environment. In addition, reducing gas consumption preserves resources for future generations and decreases costly market-based

purchases. UCE/SWEEP argue removing financial disincentives and aligning the interests of the utility with that of the consumer are critical for advancing natural gas energy efficiency. In UCE/SWEEP's view, since the CET has removed such disincentives, Questar has undergone a transformation in its interest and actions with respect to DSM. In addition, to date, UCE/SWEEP claim the CET has not adversely affected rates and QGC has moved from having no DSM programs to aggressively implementing DSM.

URA supports DSM but has concerns regarding the validity of a full revenue decoupling mechanism to accomplish the goal of using least cost resources such as DSM. While URA recognizes revenue decoupling may remove the barriers for a natural gas company to pursue DSM, the CET does not provide incentives for pursuing all possible cost-effective DSM, permits the Company to recover its allowed revenue per customer regardless of the cause of reduced usage, and reduces the risk to the utility company while there is no commensurate acknowledgment of that shift in risk such as a reduced rate of return. URA also sees as problematic a revenue decoupling mechanism which does not provide substantial opportunities for low income households to benefit from DSM measures to the extent low income customers see an increase in costs through the decoupling mechanism without the opportunity to participate in the programs. Finally, URA believes it is important to review the current rate structure to ensure the goals of rate design are consistent with the goals of, and reflect a commitment to, DSM. URA continues to believe the use of a future test year in rate cases, coupled with a lost revenue mechanism and/or incentives for reaching certain specified goals for cost-effective DSM are worthy alternatives to a revenue decoupling mechanism.

DISCUSSION, FINDINGS AND CONCLUSIONS

When we were last asked to rule on the CET, it was part of an agreed upon package among the parties to the Settlement Stipulation. We are now asked, per the Settlement Stipulation, to either continue the CET component of the Settlement Stipulation for the remaining two years of the Pilot Program or adopt an alternative. Parties differ as to whether the CET is the appropriate means, during the remaining two years of the Pilot Program, to promote energy efficiency, revenue stability and revenue adequacy.<sup>2</sup>

All parties express satisfaction with Questar Gas's initial effort to begin offering customer energy efficiency programs and we concur the effort is a positive change from prior inaction. Company actions are now also more consistent with its integrated resource plan which shows lower costs with utility DSM programs. Parties disagree on whether the CET is necessary to achieve energy efficiency, revenue stability or revenue adequacy objectives and whether it introduces a change in the Company's risk profile.

We understand the objectives of energy efficiency and revenue adequacy are linked in the following way.<sup>3</sup> All else being equal, a declining trend in average customer use causes the Company to collect less revenue in the period between general rate cases than the amount upon which rates were set, thereby undermining the Company's opportunity to earn its

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<sup>2</sup> Though parties use various nomenclature for the regulatory objectives underlying the Settlement Stipulation, we understand from testimony, the discussion of revenue stability also encompasses revenue adequacy, and we will refer to both of these objectives in this Order.

<sup>3</sup> See Questar Gas Company Exhibit 1.6, November 2004 draft white paper entitled, "Alternative Regulation Options," filed December 19, 2005.

authorized return. To the extent DSM programs further decrease use per customer, this creates the financial disincentive for the Company to undertake such programs.

The CET allows the Company to collect DNG revenues based on the number of customers rather than usage. At the same time, customers continue to face usage-based rates, thus preserving the price signal to customers to conserve natural gas. The differences in revenues are accrued in a balancing account and are returned to the Company or customers over time by amortizing the balance through periodic DNG rate changes. Thus, the CET removes the risks and actual occurrence of under recovery of DNG revenues associated with declining average customer use during the period between general rate cases, regardless of the reason for the decline. Therefore, the CET also removes this financial disincentive for the Company to engage in DSM programs.

There is substantial disagreement among parties regarding whether the CET shifts economic and commodity price risk from shareholders to customers without compensation. The Company and the Division agree with the Committee and UAE the CET shifts these risks in theory, but argue the magnitude of the risk shift in practice is unclear. The Division presents a study it believes shows the theory does not apply in Questar Gas' case. This study evaluates whether commodity price risks are shifted from shareholders to customers and is contested by the Committee and UAE on technical grounds. However, no party contends this study resolves whether there is a reduction in risk regardless of any shift in risk from shareholders to customers. We do not resolve the debate regarding a shift in economic and commodity price risk from shareholders to customers. We do find the CET reduces Company risk.

Risk to Company earnings are changed in at least two ways with the CET. First, the CET either reduces or removes the risk associated with the deterioration of earnings caused by declining use per customer, depending on whether an accrual cap is included. For example, to the extent an accrual cap is in place and shown to have a constraining affect, this risk is reduced rather than removed. Second, the variation in revenues is reduced because the number of customers is less variable and more predictable than customer usage. However, this record is insufficient to determine the effect of these changes on the Company's cost of capital and consequently on DNG rates.

Opponents argue the CET is not necessary because the problem of declining use per customer can be addressed more simply through use of a forecast test year. The Committee disagrees the declining use per customer trend impairs the Company's opportunity to earn its authorized rate of return. The Committee presents evidence new customer growth provides a source of revenue to offset the loss from both declining use per customer and DSM programs, thus offsetting harm to shareholders, assuming costs are held constant. Further, the Committee argues the appropriate and manageable alternative to the CET to address revenue loss from DSM is to provide a lost revenues adjustment based on ex-ante estimates of DSM savings provided when programs are approved by the Commission. The Company, Division and UCE/SWEEP oppose use of a lost revenues adjustment because it is contentious, does not sufficiently encourage the Company to promote energy efficiency and actual savings are difficult to measure.

While other alternatives to deal with energy efficiency, revenue stability and revenue adequacy objectives are available, we conclude it is reasonable to gain additional

experience with the CET during the remaining time of the Pilot Period. Our experience with this decoupling mechanism has been limited to one year. We view the remaining two years of the Pilot Period as an opportunity to gain more experience and gather more information by which we may evaluate the benefits and detriments of the CET. Further experience will provide more information and allow for analysis and comparison with other alternatives that could be considered to address possible impediments to energy efficiency, revenue stability and revenue adequacy.

However, we agree with the Committee, UAE and URA the CET introduces changes in risk that can only be adequately considered in the context of full rate case scrutiny, and this is a necessary step, even during this Pilot Program period, to ensure rates are just and reasonable. Therefore we order a rate case to be filed by March 1, 2008.

Regarding the proposed modifications to the CET mechanism, we agree with the Committee the accrual and amortization limits remain necessary customer protections and we order continued use of both limits for the duration of the Pilot Program period. We now address two associated issues: the base upon which these limits are calculated and their percent levels.

While the Division recommends retaining only the limit on amortizations, it proposes changing the base upon which this limit is calculated from GS revenues to DNG revenues. The Division states DNG revenues are a more appropriate base since the CET is a revenue mechanism to recover DNG costs, not total costs. The Division argues the Company has little control over gas costs, which can manifest large fluctuations. We find this modification to be warranted for both the accrual and the amortization limits. DNG costs are approximately

one-fifth and gas costs are approximately four-fifths of total costs recovered through GS rates. Therefore, the limit on the accrual shall be five percent of the most recent 12 months of DNG revenues and the limit on amortization shall be two and one half percent of the most recent 12 months of DNG revenues. These correspond to the limit on accruals of one percent of GS revenues and the limit on amortizations of one half percent of GS revenues, both contained in the Settlement Stipulation.

While the Settlement Stipulation only requires the Company to provide semi-annual filings in support of its requests for approval of rates to amortize the balance in the CET account, we direct the Company to provide monthly reports including the amounts of accruals, amortizations, their respective limits, interest, and the accumulated balances. These reports shall be filed in conjunction with the Company's regular monthly 191 purchase gas filings.

We approve the Division's recommendations regarding enhanced monitoring and reporting including a breakdown of usage per customer, DNG revenue and number of customers separately for existing and new customers. The Division argues this data will enable it to monitor the usage patterns of customers for developing trends and identify areas of concern to address. We concur and view this enhanced monitoring and reporting as an additional customer protection which will also enable us to evaluate the CET Pilot Program.

Any other modification to the CET calculation are best considered in the general rate case we order to be filed by March 1, 2008.

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ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, the Conservation Enabling Tariff is approved for the remaining two years of the Pilot Program which ends October 5, 2009, subject to the comments and conditions in this order including the reporting requirement.

DATED at Salt Lake City, Utah, this 5<sup>th</sup> day of November, 2007.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard  
Commission Secretary  
G#55243