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**BEFORE THE WYOMING PUBLIC SERVICE COMMISSION**      **Public Service Commission**  
**Wyoming**

IN THE MATTER OF THE      )  
APPLICATION OF QUESTAR    )  
GAS COMPANY FOR            )  
AUTHORITY TO FILE A        )  
CHANGE IN ITS EXISTING     )  
NATURAL GAS TARIFF         )  
\_\_\_\_\_ )

Docket No. 30010-86-GT-06  
Record 10642

DIRECT TESTIMONY  
OF  
DENISE KAY PARRISH  
ON BEHALF OF  
THE OFFICE OF CONSUMER ADVOCATE

TESTIMONY FILED: November 1, 2006  
HEARING DATE: November 6, 2006

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Denise Kay Parrish. My business address is 2515 Warren Avenue,  
3 Suite 304, Cheyenne, Wyoming 82002.

4  
5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am the Deputy Administrator of the Wyoming Office of Consumer Advocate  
7 (OCA). In this position, I review and provide input into the recommendations  
8 made by the OCA. I review utility applications filed with the Wyoming Public  
9 Service Commission (Commission) and provide advice to the Administrator  
10 regarding the involvement the OCA should have, if any, in various cases. I  
11 review applications, perform analyses and provide recommendations to the  
12 Commission relative to various utility matters, including revenue requirements,  
13 tariff language, competitive issues, rules and regulations, rate design, performance  
14 standards, and other related items. I also do other assignments and tasks, as  
15 needed and as assigned by the OCA Administrator.

16  
17 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**  
18 **BACKGROUND?**

19 A. In 1976, I graduated from Michigan State University with a Bachelor of Arts in  
20 Accounting. I have spent more than twenty-nine years as a regulator of public  
21 utilities, having been on the staff of four state utility regulatory commissions and  
22 two consumer advocate entities. Nearly fifteen of those years have been spent as  
23 a regulator in Wyoming.

24  
25 I have taken classes related to various aspects of public utility regulation,  
26 including income taxes, regulatory accounting, capital recovery, cost-of-service,  
27 rate design, revenue requirements, separations and allocations, auditing, and other  
28 specialized topics. I have taught classes on issues of accounting standards,  
29 general ratemaking principles, affiliated transactions, regulatory accounting,  
30 financial reporting, rate case auditing, cost allocations and other specialized topics  
31 to regulatory professionals.

1  
2 Since 2002, I have been a member of the faculty of the Michigan State University  
3 Institute of Public Utilities (CAMP NARUC). I have also worked with the  
4 Nigerian Communications Commission on regulatory accounting and reporting  
5 matters and have done work for the International Telecommunications Union as a  
6 seminar leader. Furthermore, I have participated as a presenter at several  
7 meetings of the Tariff and Pricing Committee of the Energy Regulators Regional  
8 Association (ERRA).

9  
10 I am the past chair and a current member of the National Association of  
11 Regulatory Utility Commissioners' (NARUC) Staff Subcommittee on Accounting  
12 and Finance. I am a member of the NARUC Staff Subcommittee on International  
13 Relations. I am listed in the current edition of Who's Who of American Women.  
14 I am currently also a member of the National Association of State Utility  
15 Consumer Advocates' (NASUCA) Tax and Accounting Committee. Finally, I am  
16 a member of the staff of the Federal-State Joint Board on Universal Service.

17  
18 **Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?**

19 A. Yes. I have testified more than one hundred twenty-five times as an expert  
20 witness. I have testified before the Michigan Public Service Commission, the  
21 Colorado Public Utilities Commission, the Colorado District Court, the Arizona  
22 Corporations Commission, the Wyoming Public Service Commission, and the  
23 Wyoming Legislature Joint Corporations Committee. I have testified in  
24 telecommunications, water, wastewater, electric, and natural gas cases. The  
25 subjects upon which I have testified include fuel and purchased power cost  
26 adjustment mechanisms, revenue requirements, rate design, cost-of-capital,  
27 nuclear decommissioning, accounting deferrals, income taxes, capital recovery,  
28 universal service funding, cost allocations, competitive issues, proposed  
29 rulemakings, and other specialized topics. In November 2004, I also provided  
30 testimony before an en banc hearing of the Federal State Joint Board on Universal  
31 Service about potential changes to the federal high cost fund.

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**Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

A. As a member of the Office of Consumer Advocate, I represent the interests of Wyoming citizens and all classes of customers in this public utility matter, as required by W.S. § 37-2-401. I do not represent the position of any individual group, municipality, or corporation.

Individual customers or customer groups are welcome to – and encouraged to— participate in the process at the Commission. This participation may range from becoming in intervenor, separate and apart from the OCA’s intervention, or by the submission of a written or oral public comment.

**Q. ARE YOU SPONSORING ANY SEPARATE EXHIBITS AS PART OF YOUR DIRECT, PREFILED TESTIMONY IN THIS PROCEEDING?**

A. No, I am not.

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

A. The purpose of my testimony is to present the OCA’s position regarding Questar Gas Company’s (Questar’s) application for approval of changes to its tariffs in response to the Commission’s adoption of new pass-on and commodity balancing account rules. My testimony will support OCA’s position that Questar’s proposed tariffs are not consistent with the Commission’s current rules, and therefore, should not be adopted without further modification.

**Q. PLEASE MORE SPECIFICALLY SUMMARIZE THE OCA’S POSITION IN THIS PROCEEDING.**

A. It is the OCA’s position that Questar has failed to adequately support several provisions contained within its proposed tariffs as submitted for approval in this proceeding. The items that we have identified as problematic are:

- Allowance for bad debt expense. Questar has failed to provide an adequate showing of why this offset to revenue should be included

1 as an element of its Commodity Balancing Account. The  
2 Commission should deny this request, consistent with the  
3 Commission's denial of a similar request of Wyoming Gas  
4 Company for the same type of costs. (Docket No. 30009-41-GP-  
5 05)

- 6     ▫ Interest on commodity balancing account under-collections.  
7 Questar has failed to provide an adequate public interest showing  
8 regarding this request. This proposed provision should be denied.
- 9     ▫ Litigation Costs. Questar has withdrawn its original request to  
10 include these costs as an element of its on-going commodity costs  
11 and commodity balancing account items. The Commission should  
12 accept Questar's withdrawal on the basis that these costs are not  
13 commodity related costs and are not appropriate for inclusion in  
14 the pass-on or commodity balancing account computation.
- 15     ▫ References to the integrated resource plan. Questar should  
16 provide the information required by the Commission's pass-on and  
17 commodity balancing account rules without reliance on the  
18 information found most directly in its integrated resource plan  
19 docket. Alternatively, we ask the Commission to provide its  
20 definition or description of what constitutes an "acknowledged"  
21 integrated resource plan, and Questar should only rely upon its  
22 integrated resource plan to comply with the rules if its plan  
23 conforms to the Commission's definition.
- 24     ▫ Clean-up tariff language. Since some of the language contained  
25 within the proposed tariffs is in error, no longer applicable,  
26 unclear, or otherwise warrants revision, Questar should be directed  
27 to incorporate, into its tariff, clean-up language regarding these  
28 identified provisions.
- 29     ▫ Non-core revenue credits. The Commission should direct Questar  
30 to restructure its tariff to separate the non-core revenue credits  
31 from its pass-on and commodity balancing account tariff

1 provisions, while keeping the basic concept of the non-core  
2 revenue credits.

- 3       ▫ Request for approval of submitted proposed tariffs. The  
4 Commission should order Questar to file a new tariff with  
5 language and provisions that are consistent with the Commission's  
6 decisions on the other issues in this proceeding.
- 7       ▫ Pass-on Request beginning November 1, 2006. The Commission  
8 should direct Questar to conform its application in Docket No.  
9 30010-87-GP-06 to its ruling in the immediate tariff proceeding.

10  
11 **Q. PLEASE PROVIDE SOME BACKGROUND ON THIS PROCEEDING.**

12 A. The history of this case begins with the implementation of the Commission's  
13 revisions to Chapter 2, Sections 249 and 250 of its Procedural Rules and Special  
14 Regulations (Commission Rules) on January 31, 2006. The enactment of these  
15 proposed rules incorporated a number of changes and clarifications from the  
16 preceding rules. Included were modifications to the application and tariff  
17 language requirements and clarification of the burden the utilities had to meet  
18 relative to the use of pass-on filings and commodity balancing accounts. Neither  
19 the Commission's order implementing the rule nor the rules themselves  
20 incorporated a transition period or instructions regarding how to implement the  
21 new rules when existing tariff provisions no longer conformed to the  
22 Commission's mandates. The Commission found no such provision necessary, as  
23 was made clear to the OCA in a November 21, 2005, letter from Chairman  
24 Furtney to Mr. Bryce Freeman. The letter concluded with the statement:

25           Any utility making a filing under the rules would be expected to  
26           comply with the rule requirements, as it would when complying  
27           with the provisions of any properly promulgated and adopted rule.  
28

29       On February 6, 2006, one week after the implementation of the revised rules,  
30 Questar filed a pass-on application. On February 23, 2006, Questar's pass-on  
31 (Docket No. 30010-83-GP-06) came before the Commission at its regularly  
32 scheduled Open Meeting and was approved on a Notice and Order basis. In

1 response to both the application and the Notice and Order, the OCA filed, on  
2 March 15, 2006, its *Protest, Comments, Concerns and Request for Additional*  
3 *Commission Action*. This document contained a number of concerns regarding  
4 the non-conformance of Questar's pass-on application to the revised Commission  
5 rules. These concerns included: (1) the filing of an application pursuant to a tariff  
6 that was in non-conformance with the revised rules; (2) the inclusion of bad debt  
7 expense; and (3) the failure to provide required documentation. On March 24,  
8 2006, Questar filed its response to the OCA's protest.

9  
10 After an extensive discussion, the OCA and Questar ultimately agreed upon a  
11 resolution of the issues the OCA had raised in its March 15, 2006, comments.  
12 This resolution was memorialized in a July 26, 2006 letter from Mr. Bruce Asay  
13 to Mr. Ivan Williams. The gist of the letter agreement was that since Questar had  
14 filed its tariff revisions in an attempt to conform to the Commission's Rules, the  
15 remaining issues could be addressed as part of the tariff filing (the instant case).  
16 We agreed that no further action was necessary in Docket No. 30010-83-GP-06.

17  
18 Parenthetically, during the time that OCA and Questar were trying to resolve the  
19 February pass-on issues, Questar filed for authority to pass-on a cost decrease  
20 effective June 1, 2006. Due to staffing and resource issues, the OCA did not  
21 participate in this case. The application was approved on a Notice and Order  
22 basis eleven days after it was filed. This matter was approved in spite of the fact  
23 that Questar had not yet filed its proposed tariff to conform to the Commission's  
24 rules. This lack of a conforming tariff filing was in direct contradiction to  
25 Commission's instructions contained in a March 14, 2006, letter from Mr. Harry  
26 Ivey, stating in part:

27 We request each utility utilizing the pass-on mechanism for  
28 wholesale commodity purchases to review the format and content  
29 of their pass-on filings to ensure they are in compliance with the  
30 revised Rule § 249. Additionally, each utility that avails itself of  
31 the commodity balancing account when it passes on projected  
32 wholesale commodity costs should review its commodity  
33 balancing account and ensure the tariff complies with all the

1 requirements of Rule § 250. **If the tariff is not in compliance**  
2 **with the new Rule § 250, file a revised commodity balancing**  
3 **account tariff with your next pass-on filing.** [Emphasis added.]  
4  
5

6 **Q. WHEN DID QUESTAR FILE ITS PROPOSED TARIFF IN RESPONSE**  
7 **TO THE COMMISSION'S REVISED RULES?**

8 A. The application which is the subject of this proceeding was filed on June 20,  
9 2006. A *Notice of Application* was issued on July 21, 2006. On August 21, 2006,  
10 the OCA timely filed its *Statement, Protest, and Notice of Intervention*. On page  
11 2 of the pleading, the OCA summarizes the concerns that it initially identified.  
12 We ultimately asked the Commission to deny Questar's application.  
13

14 **Q. WHAT IS THE LAST PIECE OF HISTORY THAT IS IMPORTANT TO**  
15 **THE ISSUES IN THIS PROCEEDING.**

16 A. While discovery was being asked and answered, and the parties were discussing  
17 potential next steps regarding the immediate case, another pass-on application  
18 was filed. This October 2, 2006, pass-on application specifically acknowledged  
19 that Questar's tariff filing was still unapproved. At paragraph 2:

20 These proposed tariff sheets were filed with the Public Service  
21 Commission of Wyoming on June 20, 2006, in Docket No. 30010-  
22 86-GT-06 to bring the Company's tariff into compliance with the  
23 changes to §§ 249 and 250 ... To the extent that the proposed tariff  
24 sheets are approved as filed, no adjustments will be needed. If the  
25 proposed tariff sheets are approved in a manner that requires this  
26 filing to be adjusted, Questar will amend this application to reflect  
27 those modifications at that time.  
28

29 The October pass-on application was approved on an interim basis at the October  
30 31, 2006, Open Meeting, specifically with the message that approval of the  
31 application, on an interim basis, was not an indicator of what the Commission's  
32 ultimate decision may be on the outstanding issues.  
33

1 **Q. PLEASE EXPLAIN YOUR POSITION REGARDING QUESTAR'S**  
2 **PROPOSED TREATMENT OF AN ALLOWANCE FOR BAD DEBT**  
3 **WITHIN ITS COMMODITY BALANCING ACCOUNT.**

4 A. In its proposed tariff, Questar proposes to include an allowance for bad debt. I  
5 recommend the Commission reject Questar's proposal and find that an allowance  
6 for bad debt is not an appropriate cost (or contra revenue) for recovery through  
7 either a pass-on or a commodity balancing account.

8  
9 The tariff language indicates that this bad debt revenue offset will be included  
10 both in the computation of the Gas-cost Base Rate Determination (see PSCW No.  
11 11, Original Page 13.2) and in the Balancing Account Accrual (see PSCW No. 11,  
12 2<sup>nd</sup> Revised Page 13). However, Questar has explained to me that this cost is  
13 truly only included in one piece of the computation: that associated with the  
14 commodity balancing account. Therefore, the remainder of my discussion on this  
15 topic will relate to the commodity balancing account proposed language only. It  
16 would, however, behoove Questar to assure that its tariff language actually  
17 reflects its intended proposals and practices. If the Commission were to adopt  
18 Questar's proposal on this issue, a clean-up of the tariff language (for instance, by  
19 removing the current item 8 from the list found on Tariff Sheet 13.1) would still  
20 be in order. If the OCA's position prevails, references to an allowance for bad  
21 debt should be entirely eliminated from the tariff provisions proposed in this case.

22  
23 **Q. WHAT IS THE BASIS FOR YOUR POSITION RELATIVE TO THE BAD**  
24 **DEBT ISSUE?**

25 A. The Commission has already ruled on a very similar issue for Wyoming Gas  
26 Company (Docket No. 30009-41-GP-05). In that case, the OCA argued that bad  
27 debt costs did not meet the general purposes for which gas cost adjustments were  
28 developed; including them in pass-on proceedings shifts more risk to the  
29 ratepayers who do pay their bills; and they provide a disincentive for a utility to  
30 stringently pursue collection policies. These arguments apply equally to Wyoming  
31 Gas Company and Questar. The result of the debate was that the Commission

1 directed Wyoming Gas to discontinue its practice of recognizing and recovering  
2 any portion of bad debt expense through its commodity balancing account  
3 mechanism. As found at paragraphs 58 and 58 of the Wyoming Gas order:  
4

5 58. In the Company's last rate case in Docket No. 30009-GR-  
6 93-17, Wyoming Gas did not include bad debt expense in  
7 its operating expenses. (Tr. P., 212.) In Docket No. 30009-  
8 GP-01-36, the Company included a percentage of bad debt  
9 expense in its commodity balancing account portion of its  
10 gas cost adjustment stating the bad debt represented the  
11 commodity portion of revenues not collected. Commission  
12 staff, at that time, agreed with the inclusion and recovery of  
13 a portion of bad debt expense through the commodity  
14 balancing account, and it was allowed in the Commission's  
15 *Order* issued in that docket. OCA takes issue with the  
16 Company's inclusion and recovery of bad debt expense in  
17 the commodity balancing account portion of its purchased  
18 gas adjustment filing and recommends the Company be  
19 directed to exclude bad debt expense from its gas cost  
20 adjustment mechanism on a prospective basis, and  
21 recalculate its commodity balancing account back to  
22 September 2000 (the date the Company commenced  
23 inclusion of bad debt expense in the gas cost adjustment) to  
24 reflect the removal of the bad debt expense adjustment.  
25

26 59. The Commission finds OCA makes a compelling argument,  
27 as reflected in Ms. Zamora's testimony, against the  
28 inclusion and recovery of bad debt expense in the  
29 commodity balancing account of the gas cost adjustment  
30 mechanism. (Tr., pp. 251-252, OCA Exhibit 1, pp. 13-15.)  
31 OCA argues bad debt expense should be recovered as an  
32 operating expense within the context of a general rat case,  
33 which the Commission acknowledges has been the  
34 mechanism historically used by utilities, and accepted by  
35 this Commission, for recognizing and recovering a  
36 reasonable amount of bad debt expense. The Commission  
37 finds the practice of including and automatically recovering  
38 all, or a portion of, bad debt expense through the  
39 commodity balancing account of the gas cost adjustment  
40 mechanism unjustly shifts the risk of bad debt expense to  
41 all consumers and may provide a disincentive for a utility  
42 to actively enforce its bad debt collection practices.  
43 Additionally, no process has emerged from this case for  
44 reasonably, accurately or efficiently differentiating between

1 bad debt expenses attributable to commodity versus non-  
2 commodity costs. The Commission finds the examination  
3 and provision for recovery of bad debt expense is more  
4 appropriately addressed within the context of the general  
5 rate case process, as has been the historical practice.  
6 Further, the Commission concurs with OCA's position that  
7 bad debt expense should be categorized as a "cost of doing  
8 business" rather than a "commodity or commodity related  
9 cost," (as referenced in the recently revised Commission  
10 Rule Sections 249 and 250, which became effective on  
11 January 31, 2006), recoverable through the pass-on or  
12 commodity balancing account mechanisms. Consistent  
13 with the Commission's findings regarding the  
14 compounding of interest on over-collections issue, the  
15 commission will not direct the Company to recalculate its  
16 commodity balancing account to exclude bad debt expense  
17 back to September 2000, as recommended by the OCA,  
18 because the Company relied on Commission staff's  
19 concurrence in including a portion of bad debt expense in  
20 the commodity balancing account portion of its gas cost  
21 adjustment filings. However, on a prospective basis,  
22 Wyoming Gas is directed to discontinue its practice of  
23 recognizing and recovering any portion of bad debt expense  
24 through its commodity balancing account mechanism.  
25

26 **Q. PLEASE EXPLAIN WHY BAD DEBT DOES NOT FIT THE GENERAL**  
27 **NATURE OF COSTS THAT ARE APPROPRIATE FOR INCLUSION IN A**  
28 **PASS-ON MECHANISM.**

29 **A.** A pass-on and commodity balancing account mechanism is a form of expedited  
30 ratemaking for a limited set of costs that are generally beyond the Company's  
31 control, are volatile, and constitute a significant portion of the Company's total  
32 cost. Questar's bad debt costs are approximately one percent (or less) of total  
33 revenues. This fails the significant cost test. Furthermore, the utility does have a  
34 certain amount of control that it can – and should—exercise over these costs. The  
35 level of these costs is influenced not only by the price of the commodity, but also  
36 by general economic conditions, deposit policies and practices of the utility,  
37 disconnection practices and policies, impositions of late fees, etc. Permission to  
38 automatically collect these costs on a dollar-for-dollar basis would provide a  
39 disincentive to rigorously pursue payment of services rendered. Such a

1 disincentive would potentially disadvantage those customers who do pay their  
2 bills, since they would be saddled with the burden of paying not only their own  
3 bill but also a potentially growing bad debt amount.  
4

5 **Q. CAN YOU PROVIDE EVIDENCE THAT SUCH A DISINCENTIVE**  
6 **EXISTS WITHIN THE UTILITY INDUSTRY IN WYOMING?**

7 A. Yes. On August 23, 2006, the OCA received a call from a Wyoming utility  
8 customer (not a Questar customer) who was concerned about some large  
9 outstanding bills that one of his tenants had left unpaid. When the landlord  
10 expressed concern to the local utility about this amount of uncollectible, he  
11 reported that he was told by the local utility customer service representative  
12 “Don’t worry, we’ll just put into rates as an uncollectible.” While this is not a  
13 story involving Questar, it shows the point that the incentive for a utility to  
14 recover the uncollectibles may be low, particularly if there is an easy rate  
15 recovery method in place.  
16

17 **Q. DO OTHER STATES ALLOW THE RECOVERY OF BAD DEBT**  
18 **THROUGH THEIR PURCHASED GAS ADJUSTMENT MECHANISMS?**

19 A. Generally, no. In August 2005, the National Regulatory Research Institute  
20 (NRRI) conducted a state survey of Purchased Gas Adjustment (PGA) and Gas  
21 Cost Recovery (GCR) Mechanisms. One of the questions asked was, “Are any  
22 Companies authorized to recover the natural gas portion of bad debt expense  
23 through the PGA/GCR?” Only 7 states responded yes to this question. More than  
24 35 other states offered a resounding NO while the remaining states either had  
25 deregulated gas costs, did not have an adjustment mechanism, or had some other  
26 unusual situation.  
27

28 Moreover, on June 15, 2004, the National Association of State Utility Consumer  
29 Advocates (NASUCA) passed a resolution *Calling Upon State Regulatory*  
30 *Authorities to Resist the Efforts of Local Gas Distribution Companies to Expand*  
31 *the Interpretation of Gas Cost to Include a Calculated Portion of their*

1 *Uncollectible Accounts Expense or Other Non-Gas Costs in Purchased Gas Cost*  
2 *Recovery Mechanisms.* The resolution encouraged state regulatory authorities to  
3 limit the use of gas cost adjustment mechanisms to the cost of purchasing and  
4 transporting natural gas supply to the local distribution company's distribution  
5 system.

6  
7 **Q. HOW DO YOU RESPOND TO QUESTAR'S ARGUMENT THAT THE**  
8 **COMMISSION HAS ALREADY RULED ON THESE BAD DEBT COSTS,**  
9 **ALLOWING QUESTAR TO PASS THEM THROUGH ITS PASS-ON**  
10 **PROVISIONS?**

11 A. Questar has repeatedly pointed out that in 2002, the Commission issued an order  
12 allowing a portion of the cost of the bad debt allowance to be moved from the  
13 non-gas portion of its rates to the commodity portion of its rates. (See order dated  
14 August 6, 2002 in Docket No. 30010-GP-02-65.) However, that approval was  
15 made pursuant to a different set of pass-on / commodity balancing account rules  
16 than are in effect today. The prior rules contained broader, undefined language  
17 as to the types of costs that would be permitted to be included in the pass-on and  
18 commodity balancing account than does the current language. For example,  
19 Section 250(a) used to read, "...any electric, gas or water utility may file an  
20 application for a proposed tariff pursuant to this Commodity Balancing Account  
21 regulation and the tariff filing provisions of this Section..." This is far more  
22 discretionary and broad than the current language in Section 250(a):

23 Any public utility may file for a proposed Commodity Balancing  
24 Account tariff pursuant to the provisions of this Section and the  
25 tariff filing provisions of this Chapter. Such a Commodity  
26 Balancing Account may be established **if the Commission**  
27 **determines it is in the public interest**... [Emphasis added.]  
28

29 No public interest showing has been made in either the current case or the 2002  
30 case. Such a showing must be made before Questar's tariff provision for bad debt  
31 is approved. It is Questar's burden to make a public interest showing – not just a  
32 shareholder interest showing – and it has failed to do so.

1 **Q. DO YOU AGREE WITH THE ARGUMENT THAT CUSTOMERS ARE**  
2 **INDIFFERENT AS TO WHETHER THE BAD DEBT IS RECOVERED**  
3 **THROUGH PASS-ON RATES OR BASE RATES?**

4 A. No. In granting approval of Questar's request in Docket No.30010-GP-02-65, the  
5 Commission order repeated Questar's argument that the change would have no  
6 effect on the total rate charged to customers. However, that would only be true, if  
7 the movement from non-gas rates to commodity rates were a one time movement  
8 of costs. Under a circumstance where one set of costs was moved from one rate  
9 element to another rate element, customers would be indifferent. So, when  
10 describing the circumstances of that one action in one isolated case, it would be  
11 true that customers may be indifferent, and the total rate would not change.

12  
13 However, customers are not indifferent or unharmed when the entire process of  
14 how bad debt is recovered is changed from rate cases to pass-on cases. That is  
15 what is proposed to happen pursuant to the proposed tariff in this case.  
16 Customers are not indifferent, because rate cases happen on an infrequent basis.  
17 In Questar's case, base rates were last changed in the year 2000, and if the bad  
18 debts were exclusively recovered through base rates, the level of bad debt paid by  
19 customers would have been unchanged for the past six years. However,  
20 commodity rates have changed many times since the year 2000, including three  
21 times in the year 2006. So, each time rates change, the bad debt amount also  
22 changes. Under this process, customers are not indifferent. A change in the  
23 process will have an effect on the total rate paid by customers.

24  
25 **Q. HAVE YOU BEEN ABLE TO QUANTIFY THE TOTAL AMOUNT THAT**  
26 **CUSTOMER RATES HAVE INCREASED AS A RESULT OF**  
27 **INCLUDING BAD DEBT EXPENSE IN THE PASS-ON / COMMODITY**  
28 **BALANCING ACCOUNT COMPUTATION?**

29 A. Yes. According to information provided by Questar, between the initial approval  
30 effective July 1, 2002 and September 2006, the bad debt allowances passed on  
31 have totaled \$664,051. The breakdown is:

1	2002	\$71,041
2	2003	\$85,225
3	2004	\$157,629
4	2005	\$229,102
5	2006 (through September)	\$121,024

6  
7 Of this identified amount, the amount of \$210,262 is at issue as a result of the  
8 implementation of the revised Commission rules. I arrive at this amount by  
9 adding the allowances for bad debt included in the February 2006 pass-on  
10 application (\$89,238 total for October through December 2005)) to the amount  
11 identified above for the first nine months of September (\$121,024). While some  
12 may argue that only the amount since January 31, 2006 is in dispute, the OCA  
13 disagrees. The Commission rules are relevant for applications filed after the  
14 effective date of the rules, not costs incurred after the effective date of the rules.  
15 Thus, Questar's failure -- in any of its 2006 applications -- to make the public  
16 interest showing regarding this topic, makes all of these costs subject to exclusion  
17 from the commodity balancing account.

18  
19 **Q. PLEASE COMMENT ON QUESTAR'S ARGUMENT THAT**  
20 **ACCOUNTING PRINCIPLES REQUIRE THAT THE ALLOWANCE FOR**  
21 **BAD DEBT BE RECOVERED THROUGH THE COMMODITY**  
22 **BALANCING ACCOUNT RATHER THAN BASE RATES.**

23 A. I strongly disagree with this argument. I do agree that recording an allowance for  
24 bad debt on the utility's books of account is proper accounting. However, the  
25 way the costs are recorded is an entirely different question than how the costs are  
26 recovered through rates. The question of what form rate recovery takes is the  
27 purview of regulators, not accountants or accounting standard setters.

28  
29 **Q. MS. PARRISH, IS THE OCA OBJECTING TO QUESTAR'S PROPOSAL**  
30 **TO COMPUTE AND COLLECT INTEREST ON UNDERCOLLECTED**

1 **BALANCES ASSOCIATED WITH ITS ACCOUNT 191, THAT IS, ITS**  
2 **COMMODITY BALANCING ACCOUNT?**

3 A. Yes. Section 250 (e) of the Commission's Rules states,

4 The public utility shall make a showing that it is in the public  
5 interest and obtain Commission approval before charging interest  
6 on any under-collected balance in the Commodity Balancing  
7 Account...

8  
9 Questar has failed to provide the requisite showing of how its proposal is in the  
10 public interest, and thus, the Commission must deny its request for interest on  
11 under-collections.

12  
13 In the application requesting approval of its proposed tariffs, Questar offers five  
14 reasons in support of its request to compute and collect interest on its under  
15 recovered balances. While we respond to each of the individual arguments below,  
16 suffice it to say, we find that none of the five points provide any compelling  
17 public interest argument.

18  
19 Questar first argues that symmetry is required (that is, interest on both over- and  
20 under-collections) for the Commission to meet its charge of considering both the  
21 interests of the utilities and the public. We disagree. Clearly the Commission  
22 may consider the interest of both parties, without having to find a precise  
23 midpoint or compromise. As the Commission has cited in many, many orders, the  
24 Wyoming Supreme Court has specifically found:

25 The PSC, in exercising its statutory powers to regulate and  
26 supervise public utilities in the State of Wyoming, as provided in §  
27 37-2-112, W.S. 1977, is required to give paramount consideration  
28 to the public interest, the desires of the utility being secondary.  
29 *Mountain Fuel Supply Co. v. Public Service Com'n of Wyo.*, 662  
30 P.2d 878 (Wyo. 1983).

31  
32 Furthermore, the Commission has already taken into account the interest of the  
33 utility and its shareholders when it allowed an expedited process for the recovery  
34 of the bulk of Questar's operating costs. Frankly, it is more legitimate to make

1 the argument that not allowing interest on under-collections is a counterbalance –  
2 albeit a weak one – to the circumstance where not only is Questar permitted  
3 expedited, limited review recovery of a significant amount of its operating costs,  
4 but also has access to better and more information relative to those costs than does  
5 the regulator.

6  
7 In a related point, denying interest on its under-collections provides a modicum of  
8 incentive to Questar to make the best purchases and forecasts possible under  
9 current circumstances. Imagine a circumstance where commodity costs are  
10 unstable and generally rising. If Questar were permitted to pass through all of its  
11 commodity costs and earn interest on under-collections, it would have no  
12 financial incentive to try to get the absolute best deal for its customer, as  
13 shareholders would have no financial risk, not even the lost opportunity cost on  
14 the funds tied up in the under-collection. If it purchased its commodity at a  
15 slightly higher price than others – who cares, it might say – since all costs are  
16 allowable for pass-on recovery. On the other hand, if interest on under recoveries  
17 is not permitted, and the utility paid more for gas than it forecasted, shareholders  
18 are at risk, since the funds would not be available for other earnings opportunities  
19 and no return is being earned on the funds through the pass-on. The incentive that  
20 the lack of interest on under-collections provides must not be ignored.

21  
22 **Q. WHAT IS QUESTAR'S SECOND POINT ON THE TOPIC OF INTEREST**  
23 **ON UNDERCOLLECTIONS?**

24 A. Questar argues that allowing interest on under-collections would help foster a  
25 healthy utility which would be able to negotiate lower interest rates which would  
26 then be “passed on directly to the customers.” Questar has failed to submit any  
27 information or documentation in support of this argument that interest rates would  
28 be lower if its request were granted and certainly provides no information as to  
29 how these benefits are, or would, be passed on to customers. No analyst reports  
30 have been provided that discuss the impact on debt ratings due to the ability or  
31 inability to earn on under-collections.

1  
2 In fact, lower interest rates are not directly passed on to customers between  
3 general rate cases. The Commission's decision in Questar's last rate proceeding,  
4 Docket No. 3010-GP-98-46, was memorialized in an order dated April 10, 2000.  
5 Paragraph 21 of the decision indicates that the book cost of debt at year end 1998  
6 (the test year) was 8.43%. The current results of operation for Questar, submitted  
7 to the Commission on May 2, 2006, shows an average cost of debt of 6.56%.  
8 This difference has not been passed on to customers directly, as Questar infers in  
9 its application.

10  
11 **Q. DOES QUESTAR ARGUE A THIRD POINT REGARDING**  
12 **UNDERCOLLECTIONS AND THE PUBLIC INTEREST?**

13 A. In his direct testimony, Mr. Brent Bakker attempts to show a correlation between  
14 short-term borrowings and under-collections. This appears to be offered in  
15 support of yet another argument that focuses on the repayment of costs incurred  
16 as a result of these under-recovered commodity balances. I leave it to the  
17 Commission to determine whether such a correlation truly exists. But, even if it  
18 does, the argument that is being made is again one that would have the  
19 shareholders accruing more benefits and cost recovery on the backs of ratepayers.  
20 We do not see the public interest argument here either, since there has been no  
21 evidence provided that shows that allowing expedited recovery of these short term  
22 borrowing costs reduces the overall debt rating or results in a benefit to  
23 customers. The argument falls short of showing how ratepayers benefit, focusing  
24 only on the benefits to shareholders.

25  
26 **Q. WHAT ARE QUESTAR'S FINAL ARGUMENTS RELATIVE TO**  
27 **SEEKING INTEREST ON UNDERCOLLECTED BALANCES?**

28 A. In its fourth and fifth points, Questar states: "Because these costs vary more  
29 directly with changes in the natural gas prices, these costs are more appropriately  
30 handled in a pass-on case rather than a general rate case," and "Neither the  
31 Company nor the customers have any control of the natural gas markets that cause

1 imbalances in the 191 Account.” While on its face, this argument seems logical,  
2 it fails upon closer examination. In his testimony, Mr. Bakker reminds us that the  
3 under-collection may be driven by more than just the unregulated wholesale price  
4 of natural gas. He reminds us that the balance is also impacted by weather,  
5

6 I agree that weather can and is a real factor relative to commodity imbalances as  
7 well as the wholesale commodity price. However, Questar does have an  
8 advantage over many other companies, in that it has a weather normalization  
9 adjustment provision in its general non-commodity tariffs to address a portion of  
10 its risk. This provision shifts much of the weather risk that would otherwise be on  
11 shareholders to ratepayers, by providing a high probability that Questar will  
12 recover its fixed costs annually, regardless of the weather. Another significant  
13 portion of the weather risk is reduced through the traditional, non-contested  
14 provisions of the pass-on and commodity balancing account that allows for a  
15 relatively expedited recovery (compared to general rate cases) of over or under-  
16 collected balances. So, the only thing that shareholders continue to bear the risk  
17 on is the weather related piece of the lost opportunity cost relative to the under-  
18 collected balance. I worry that if this remaining shareholder risk were moved to  
19 ratepayers, by allowing interest on undercollections, all of the delicate public  
20 interest balance would be lost. In this instance, the public interest strongly argues  
21 for no interest on undercollections.  
22

23 Finally, Mr. Bakker reminds us that the under-collected balances are also  
24 impacted by the timing and frequency of pass-on filings. Questar then focuses on  
25 the costs and burden that would be associated with monthly filings, as monthly  
26 filings would provide the best opportunity to eliminate large under-collected  
27 balances. However, there is another timing and frequency issue that is not  
28 discussed by Mr. Bakker – when during the course of a year Questar will choose  
29 to make its annually required filing.  
30

1 Currently, Questar's tariffs require it to submit a pass-on and commodity  
2 balancing account filing on at least a semi-annual basis. The proposed tariff, if  
3 approved, would have a minimum requirement of annual filings. But, in neither  
4 case, does the tariff specify at what time during the year the filings will be made.  
5 So, as the Commission heard during its Open Meeting of October 31, 2006,  
6 during the discussion of Questar's pass-on application, the utility management has  
7 a great deal of discretion as to when those filings occur. This can greatly impact  
8 the size of the over or under-collection, as we saw when Questar's commodity  
9 balance made a \$2 million swing during an eight month period in 2006.

10  
11 **Q. IS QUESTAR PROPOSING TO RECOVER LITIGATION COSTS AS**  
12 **PART OF ITS PASS-ON AND COMMODITY BALANCING ACCOUNT**  
13 **TARIFF PROVISIONS?**

14 A. While Questar originally proposed the recovery of these costs through its pass-on  
15 and commodity balancing account, it appears to have withdrawn the request  
16 through the prefiled testimony of Mr. Gary Robinson. On page 8 of 10 of his  
17 prefiled testimony, Mr. Robinson states that "...the Company is withdrawing its  
18 request to include these expenses in the 191 Account."

19  
20 **Q. WHAT IS YOUR REACTION TO THIS REQUEST?**

21 A. The Commission should not allow the litigation costs to be included in either the  
22 pass-on or the commodity balancing account. These are not the type of  
23 commodity related costs that should be afforded expedited rate treatment or  
24 guaranteed recovery. With that clarification, the Commission should grant  
25 Questar's request to withdraw the inclusion of these costs from its proposed  
26 commodity balancing account tariff language.

27  
28 **Q. WHY HAVE YOU SINGLED OUT CERTAIN CATEGORIES OF COSTS**  
29 **TO CHALLENGE – SUCH AS BAD DEBT AND LITIGATION COSTS –**  
30 **BUT HAVE CHOSEN NOT TO OPPOSE THE COSTS CATEGORIES**  
31 **WITH MORE SIGNIFICANT COSTS?**

1 A. While a reasonable argument could be made that each utility who wishes to have  
2 a commodity balancing account provision in its tariff must explain the inclusion  
3 of each and every cost that it wishes to include, common sense must prevail.  
4 There are certain costs that clearly meet all reasonableness and public interest  
5 arguments for inclusion in an expedited mechanism. These include the actual  
6 wholesale cost of the product, as well as some transportation costs associated with  
7 the delivery of the product. These are commonly accepted pass-on costs, and  
8 OCA would be foolish to argue otherwise. But, the line between those obvious  
9 costs and the more subtle costs is dull and fuzzy. It is not a bright line. Thus,  
10 different parties will have different opinions on whether a cost is a commodity or  
11 a commodity related cost. Different parties will also have different opinions on  
12 the public interest test and what it should entail. It is within this context that the  
13 OCA brings these questions to the Commission for resolution.  
14

15 **Q. MS. PARRISH, DO YOU HAVE A CONCERN ABOUT THE PROPOSED**  
16 **TARIFF LANGUAGE FOUND ON PSCW NO. 11, 2<sup>ND</sup> REVISED PAGE**  
17 **13?**

18 A. Yes. While I have already described my big ticket concerns, the next several  
19 items relate to language that is unclear or incomplete. Specifically, I am  
20 concerned about the description of the Commodity Related Gas Costs that are  
21 under the Balancing Account Accrual provision of the tariff. For instance, item  
22 (2) of tariff page 13 indicates that certain “additional gas cost expenses” will be  
23 included in the commodity balancing account computation, and it lists out three  
24 specific examples of those costs. Yet, there is no qualifying provision that  
25 indicates that those costs will only be included if the identified categories of cost  
26 are prudent, and reasonably incurred for the provision of retail service. I am  
27 concerned that unless this is clarified, there could be future arguments put forth  
28 that the inclusion of these costs is purely formulaic, to the exclusion of any  
29 examination of prudence. It would be better to clarify those points now, rather  
30 than debate them later. Therefore, I recommend that language be added to this  
31 tariff section that reminds the reader of the test set forth in Section 249(g)(i) – a

1 test that should overlay all of the other cost recovery provisions. The additional  
2 language that I recommend be added to the tariff should be a reminder that  
3 recoverable costs must be found to lead to the most reasonable rate result  
4 consistent with the provision of safe, adequate, and reliable service.  
5

6 **Q. WHAT CONCERN DO YOU HAVE RELATIVE TO REFERENCES TO**  
7 **QUESTAR'S INTEGRATED RESOURCE PLAN IN ITS PROPOSED**  
8 **TARIFF?**

9 A. This concern arises out of the language found on proposed tariff page 13.1, at the  
10 first full paragraph under the heading Gas-Cost Base Rate Determination. The  
11 last sentence of that paragraph refers to "forecasted core decatherm sales taken  
12 from the Company's most recent integrated resource plan." The troubling phrase  
13 is the reference to the integrated resource plan, given that in the past few years,  
14 the submitted plan has simply been given a docket number but has not been the  
15 recipient of any other formal Commission action. I worry that including a  
16 reference to the integrated resource plan at this point in the tariff will provide  
17 some comfort, assurance or other regulatory oversight implication that simply  
18 does not exist. I recommend that the phrase "taken from the Company's most  
19 recent integrated resource plan" be removed from the tariff language. Without  
20 this language, Questar would still have the opportunity to use forecasted sales.  
21 And, it would still have the opportunity to take those sales from the integrated  
22 resource plan. It would simply avoid a presumption that the reader might make  
23 that those sales have already been reviewed and approved in a different regulatory  
24 forum.  
25

26 **Q. ARE THERE ADDITIONAL SECTIONS OF THE TARIFF WHERE**  
27 **OCA'S CONCERNS COULD BE READILY ELIMINATED WITH**  
28 **MODEST WORDING CHANGES OR DELETIONS?**

29 A. Yes. In reviewing the proposed tariff, the OCA found the definition of  
30 "commodity cost" to be quite confusing and erroneous. This is found on Original  
31 Page 80.1 attached to the application. The proposed definition is "that portion of

1 a rate for gas service that is based on costs related to the volumes of gas used by  
2 the customer.” One reasonable reading of this definition would have one believe  
3 that any portion of the rate that is volumetric is based on the commodity cost. Yet,  
4 this is not the way the term is used in practice. In practice, the commodity costs  
5 are not all of the volumetric-based costs, as there is a portion of the volumetric  
6 based costs that are incorporated in non-gas charges. In response to the concern,  
7 Mr. Bakker has offered to remove this definition from the tariff. I recommend the  
8 Commission accept Mr. Bakker’s offer to delete the language.

9  
10 **Q. WHY IS YOUR CONCERN ABOUT QUESTAR’S CORE AND NON-**  
11 **CORE COST ALLOCATION AND RATE STRUCTURE RELEVANT TO**  
12 **THIS PROCEEDING?**

13 A. All of the OCA’s concerns in this proceeding arise from the content or language  
14 of Questar’s proposed tariff section 2.07. The last provision in tariff Section 2.07  
15 is the Non-Core Revenue Adjustment Determination. The language reads:

16 In each filing which computes the surcharge (positive or negative),  
17 the Company will compute a credit to core rates for the revenue  
18 collected from non-core customers. This adjustment will include  
19 any capacity-release revenue allocated to Wyoming. The  
20 accounting for this adjustment will occur in Account 191.  
21

22 In looking at the proposed definitions found on Original Page 80.1, it is clear that  
23 Account 191 is also known as the commodity balancing account. This is where  
24 the problem arises. According to the Commission’s Rules, the commodity  
25 balancing account (a.k.a. Account 191) is only supposed to be used for tracking  
26 certain costs and revenues, and all of those items are to be commodity or  
27 commodity related. The Non-Core Revenue Adjustment does not fit the  
28 definition and description of the Commission’s Rules. So, I feel the need to raise  
29 the issue in this proceeding. Yet, to simply throw this provision out of this tariff  
30 section, without an alternative, is analogous to throwing the baby out with the  
31 bath water.  
32

1 **Q. BEFORE OFFERING A RECOMMENDATION REGARDING THIS**  
2 **POTENTIAL PROBLEM, PLEASE PROVIDE A LITTLE MORE**  
3 **BACKGROUND ON THIS ISSUE.**

4 A. In Docket 30010-GR-93-24, order issued September 3, 1993, the Commission  
5 adopted a rate design for Questar (then known as Mountain Fuel Supply  
6 Company) that designated customer classes as *core* or *non-core*. Core customers  
7 were primarily general service customers, while non-core customers were  
8 generally transportation customers. The decision was made to assign all of the  
9 fixed and on-going operational costs to the core customers and none to the non-  
10 core customers. This was based on the difficulty of predicting an on-going level  
11 of normal activity for the non-core class. Yet, the non-core customers would still  
12 provide a revenue stream, even if the level of revenue was somewhat  
13 unpredictable. This revenue was to be credited annually to the core customers.  
14 Thus, core customers would get the benefit of any revenues generated from the  
15 non-core class to offset the fact that all of the costs had been assigned to them.  
16 For ease of implementing this plan, a decision was made to simply use the  
17 existing Account 191 to provide the non-core revenue credit to core customers.

18  
19 **Q. ARE YOU CHALLENGING THE ENTIRE CONCEPT OF THE NON-**  
20 **CORE REVENUE CREDIT?**

21 A. No. However, I am concerned about violating the pureness of the Commodity  
22 Balancing Account by continuing the current process of using Account 191 to  
23 track non-commodity based items merely because it is *the easy thing to do*.  
24 Therefore, I am suggesting that the Commission direct Questar to refile its tariffs  
25 with a proposal that retains the core/non-core revenue credit proposal, but does it  
26 in a manner that doesn't rely on the use of the Commodity Balancing Account to  
27 flow through the credit. It could be something as simple as putting the non-core  
28 revenue credit in a separate account or separate subaccount (with a different title),  
29 which is then amortized with the same frequency and over the same time frame as  
30 the commodity balancing account.

31

1 **Q. WHY ALL THE FUSS WHEN THIS APPEARS TO BE FORM OVER**  
2 **SUBSTANCE?**

3 A. In this instance, keeping the commodity balancing account from becoming a  
4 dumping ground for various non-commodity items is very important. The utilities  
5 have a tendency to try to gravitate costs to the commodity balancing account for  
6 tracking and recovery purposes since it is a means of getting expedited rate  
7 recovery in a way that tends to shift risk from shareholders to ratepayers. We  
8 have seen that in this case, with several of the items that OCA is contesting, such  
9 as litigation costs and bad debt. We encourage the Commission not to continue to  
10 use the 191 account as an easy target for a wide variety of ratemaking.

11

12 **Q. DO YOU HAVE ANYTHING FURTHER TO ADD AT THIS TIME?**

13 A. No. However, I would like the opportunity at the hearing to respond to any new  
14 information provided by Questar at the hearing.

**CERTIFICATE OF SERVICE**

I hereby certify that on November 1, 2006, I served the foregoing pre-filed direct testimony of Denise Kay Parrish by delivering copies thereof to the individuals/entities below, by the method(s) indicated.

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