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Questar to push conservation but customers will pay for it

By Steven Oberbeck
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Questar Gas Co. wants to get rid of a customer-friendly financial incentive that for decades encouraged natural gas conservation at the company's expense.

The utility maintains it's finally ready to voluntarily help promote energy conservation in Utah, but only if state regulators allow it to change the way it bills its customers so any decline in natural gas use doesn't impact its bottom line.

"The problem we face is how we are going to collect enough money to cover our costs, while still encouraging conservation," said Barrie McKay, director of regulatory affairs for Questar.

Under its current rate structure, the amount Questar collects from each customer to cover its fixed costs - expenses that include employee wages, the outlays for its buildings and expenditures on its pipes, trucks and other equipment - is tied to the amount of natural gas used in each home. This means that if a customer is successful in cutting natural gas use by \$10 a month, the customer actually will end up saving a little more than \$13 on his or her bill - \$10 in natural gas and \$3 or so that would have gone to cover Questar's cost of delivering the fuel.

Thousands of Utahns are cutting their usage - since 1999 household natural gas use has been declining at a rate of approximately 1 percent annually - by putting in fuel-efficient heaters, turning down thermostats during the winter and lowering the temperature settings on water heaters. A 1 percent decline in natural gas usage means the company's revenue falls about \$12 million a year, while the company contends that it then has a hard time earning its allowed rate of return.

Questar's solution: Sever the tie between its fixed costs and natural gas usage through a process known as "revenue decoupling." That way, the company always will be assured of collecting the money it needs to run its system and then be free to set up conservation programs to encourage Utahns to cut back on usage. The estimated \$10 million to \$20 million cost would be paid for by its customers through higher rates.

Consumer advocates counter that such a plan would not be as cost-effective for Utahns who reduce consumption. Instead of saving \$13 by cutting usage \$10 a month, consumers would see their bill go down by only that \$10, the price of the natural gas they didn't use. Questar would get to keep that other \$3. Advocates question the utility's new-found commitment and contend that Questar Gas actually wants only to lock in profits for its shareholders at the expense of its customers, who already are cutting back because of high prices.

"What this revenue decoupling does is reduce risk for the utility and place it on customers," said Reed Warnick, interim executive director of the Committee of Consumer Services. "We don't believe consumers should be paying for something they [consumers] already are doing."

Under Questar's proposal, the company every six months would calculate how much it needs to run its system and then adjust rates either up or down to make sure it that it is collecting enough money from its customers. Warnick points out that there are several reasons why natural gas consumption

might go down besides customer conservation, and Questar's decoupling proposal would give blanket protection to the company in those cases.

Natural gas use can go down because of a recession, a slowdown in the number of new customers hooking onto the gas company's distribution system or even climate change, Warnick said. "Traditionally, those risks have been born by the utility, not its customers."

Gary Dodge, an attorney representing the Utah Association of Energy Users, says the traditional method of setting utility rates gives companies plenty of opportunities to cover their costs. Under the traditional system that Questar wants to overturn, the state's Public Service Commission looks at the company's costs and revenues, then determines where rates need to be set so that the utility can continue to serve its customers and earn a reasonable return on its assets.

In the periods between rate cases, a utility can adjust its operations to give itself a better chance to achieve the profits it's allowed to earn. "Utilities always have an incentive between rate cases to save money and operate more efficiently," said Dodge, whose group represents companies such as Intermountain Health Care, Tesoro and ATK-Hexcel. "Once they reach the point where they can no longer do that reasonably well, they can file another rate case."

Although Dodge said he has no problem with the company charging its customers for "demand-side management," or conservation programs, he fears that if Questar's revenue decoupling proposal was adopted, the utility no longer would have an incentive to operate "lean and mean."

Questar, though, has its allies. The Utah Division of Public Utilities; the Natural Resources Defense Council, a New York-based environmental group; and Utah Clean Energy are supporting the revenue decoupling concept.

"We believe the company is on the right track. If they are successful, we will see them get behind some very aggressive energy-efficiency programs that can't help but benefit consumers," said Ralph Cavanagh, senior attorney for the council. "And then, finally, the utility's interests will be aligned with those of its customers."

Without decoupling, Questar would have little reason to promote energy conservation, said Howard Geller of the Southwest Energy Efficiency Project, which also is supporting the company's proposal. "With natural gas use expected to increase significantly over the next 15 years, it is important to have utilities on board and doing what they can to encourage conservation," Geller said.

Conservation already is taking place in Utah, in fact it's happening at a rate so rapid that Questar is pleading with the Public Service Commission for relief. Questar's McKay said natural gas use declined annually among its customers from 180 decatherms - the equivalent of 180,000 cubic feet of natural gas - in 1980 to approximately 115 decatherms last year - a drop of 36 percent.

The utility maintains that with its support, its customers could save another 20 percent in natural gas during the next decade. "We're only going to offer conservation programs that will save our customers more than they cost," McKay said. "And that will help lower rates because we won't have to buy so much high-priced gas [on the open market] in the future."

Consumer advocates counter that as a regulated utility, Questar already has an obligation to provide service at the lowest possible cost to its customers, and that includes offering programs that can help them lower their bills. In written testimony filed on behalf of the Committee of Consumer Services, energy consultant David Dismukes of Baton Rouge, La., argued that the Public Service Commission should expect Questar to take advantage of cost-effective conservation programs and make them available to its customers.

"There are a number of utilities around the country that . . . provide a wide range of cost-effective [conservation] programs to their customers, and do not have a mechanism" such as revenue decoupling, he said.