

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application to Remove |
GSS and EAC Rates from Questar Gas |
Company's Tariff |

Docket No 06-057-T04

STIPULATION SUPPLEMENTARY TESTIMONY OF

ROGER J BALL

23 March 2007

1 INTRODUCTION

2 Q Who are you, and what is your address?

3 A I am Roger J Ball, and my address is 1375 Vintry Lane, Salt Lake City, Utah
4 84121.

5 Q Are you the same Roger Ball who submitted Stipulation¹ Testimony in this Docket
6 on 14 March 2007?

7 A Yes.

8 Q What is the purpose of your Stipulation Supplementary Testimony?

9 A Since filing my Position Statement and Stipulation Testimony on 14 March I have
10 continued to study and analyse the material furnished to me by Questar Gas
11 Company², the Utah Division of Public Utilities³ and the Utah Committee of
12 Consumer Services⁴ in response to my data requests. I am submitting this
13 information, evidence, and recommendations because it has not been presented
14 by any other party and because I hope that it will be useful to the Commission in
15 this Docket.

16

¹ The GSS/EAC Stipulation in Docket 06-057-T04, the Application to Remove GSS and EAC Rates from Questar Gas Company's Tariff, is referred to throughout this Stipulation Supplemental Testimony as "Stipulation".

² Subsequently sometimes referred to interchangeably as Questar, QGC, Company, or utility.

³ Subsequently sometimes referred to interchangeably as Division, or DPU.

⁴ Subsequently sometimes referred to interchangeably as Committee, or CCS.

1 CUSTOMER NUMBERS

2 Q Please tell us about the growth in the utility's customer numbers.

3 A In his 1986 Prepared Testimony, Mr Bennett wrote:

4 the Company has grown from slightly more than 22,000 customers in 1935,
5 to more than 450,000 in 1986.⁵

6 In his Exhibit 2.1, Mr Bennett further informed the Commission that, when he
7 "began employment with Mountain Fuel in 1960", the Company had some 170,000
8 customers.⁶

9 According to the Murray Journal:

10 The company recorded its 250,000th customer in 1970 and its 500,000th
11 customer in 1990. Today, Questar has more than 772,000 customers in
12 Utah, southwestern Wyoming and southeastern Idaho.⁷

13 The growth in customer numbers of Questar and its predecessors in interest can
14 therefore be summarised as follows:

15	1929	0
16	1935	22,000
17	1960	170,000
18	1970	250,000
19	1986	450,000
20	1990	500,000
21	2004	772,000
22		

23

⁵ Prepared Testimony of W D Bennett in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, page 5, lines 3-5.

⁶ Prepared Testimony of W D Bennett in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, Exhibit No 2.1.

⁷ "Questar Celebrates 75 Years of Delivering Gas to Murray", The Murray Journal, August 2004, page 15.

1 THE EXPANSION OF NATURAL GAS DISTRIBUTION INFRASTRUCTURE

2 Q Have you reviewed the applications, orders and other documents that were filed
3 with the Commission in previous gas utility service territory expansion cases?

4 A I have reviewed many of the applications, orders and other documents that were
5 supplied to me by Questar, the Division and the Committee in response to my 16
6 February data requests to be provided with all past and future data requests and
7 responses in this docket. Time and other commitments have precluded my
8 studying everything as I would wish.

9

10 Q What can you tell us about the growth of the utility's natural gas distribution
11 system in Utah from its inception until 1986?

12 A Questar Gas Company is the successor in interest to Mountain Fuel Supply
13 Company,⁸ which had previously succeeded to the local natural gas distribution
14 company interests of Western Public Service Corporation (WPSC), a vertically-
15 integrated natural gas company.

16 WPSC first brought natural gas service to Weber, Davis, and Salt Lake counties in
17 August 1929.⁹ 330 miles of pipeline transported gas from the Baxter, Clay and
18 Hiawatha basins of southeastern Wyoming and northwestern Colorado via routes
19 approximating I-80 and I-84 to the Salt Lake and Sunset stations (now more

⁸ Subsequently sometimes referred to interchangeably as Mountain Fuel, MFSC, MFS, Company, or utility.

⁹ Questar Celebrates 75 Years of Delivering Gas to Murray, The Murray Journal, August 2004 (Year 3 Issue 8), page 14. [Published by The Valley Journals, PO Box 591, West Jordan, Utah 84084; (801) 808-9339; www.valleyjournals.com.]

1 usually referred to as city gates). The initial Utah distribution network seems to
2 have run from Morgan in the east to Garfield in the west, and from Ogden in the
3 north to Sandy in the south, including Layton, Kaysville, Farmington, Centerville,
4 Bountiful, Salt Lake City, Murray, Midvale, and Magna.¹⁰

5 In Prepared Testimony filed on 2 May 1986, Company engineering witness W D
6 Bennett wrote:

7 Mountain Fuel Supply Company is a retail natural gas distribution utility that
8 was organized in 1935 ... major service extensions began in 1948 when
9 Mountain Fuel Supply Company extended its service to Provo, Utah. In
10 1957 service was extended into Box Elder and Cache Counties in northern
11 Utah. Most of Mountain Fuel Supply Company's growth since 1957 has
12 been as a result of the great population expansion in existing areas of
13 operation, however, there have been several system extensions since 1957
14 of significant magnitude. In 1963 service was extended to Heber and
15 Kamas valleys in Utah, in 1965 to communities in Emery County, Utah and
16 in 1966 to Price, Roosevelt, Duchesne and Myton, Utah. More recently, in
17 1979 Wellington, Utah was added, with Woodruff and Randolph, Utah being
18 added in 1980. During 1986 natural gas service will be extended to
19 Snowbird and Alta.¹¹

20 On 2 October 1986, the Commission approved "special tariff terms for service to
21 customers in the Little Cottonwood Canyon area".¹²

22
23 Q What can you tell us about the Company's Southern System Expansion?

¹⁰ From a map published in The Oil Weekly dated 14 March 1930, reproduced in The Murray Journal dated August 2004.

¹¹ Prepared Testimony of W D Bennett in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 4, lines 15-34.

¹² Report and Order dated 2 October 1986 in Case 86-057-08, the Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in Little Cottonwood Canyon: pages 1; item 2, first sentence; and pages 1 & 2, item 3.

1 A On 2 May 1986, MFSC applied for a certificate of public convenience and
2 necessity:

3 ... to extend its natural gas distribution system in the state of Utah in an
4 area contiguous to Mountain Fuel's current service territory, for the purpose
5 of providing natural gas service to communities in the vicinity of the
6 proposed extension in Sanpete, Sevier, Piute, Iron, and Washington
7 Counties. Mountain Fuel also proposes to expand the availability of natural
8 gas service to serve communities in Juab, Millard, Garfield, and Beaver
9 Counties as such service is determined to be economically feasible.¹³

10 Natural gas service is not presently being rendered in the communities to
11 be served by the proposed extension ...¹⁴

12 Column A on pages 1 and 2 of my Exhibit 2.1 shows the communities by county
13 that the utility, in Mr Robinson's Prepared Testimony, proposed to serve.¹⁵

14 MFSC planned a 246-mile pipeline to Cedar City, and preferably to St George,
15 from a point on transmission line 41 belonging to Mountain Fuel Resources Inc
16 (today, Questar Pipeline Company's Main Line 41) near Milburn (now more
17 usually referred to as the Indianola Gate), running south-southwesterly, roughly
18 along the track of US89, Utah Hwy 20, and I-15.

19 In Prepared Testimony filed with the Application, Company policy witness Glenn H
20 Robinson explained:

21 Construction of a minimum system configuration for just central Utah could
22 effectively preclude natural gas service being available in the counties in
23 southwestern Utah for many years to come. Without adequate capacity
24 being built into the central Utah system to also service southwestern Utah,
25 *a new pipeline would be required to be constructed to make service*

¹³ Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity dated 2 May 1986 in Docket 86-057-03: page 1, item 2, first and second sentences.

¹⁴ Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity dated 2 May 1986 in Docket 86-057-03: page 3, item 6, first sentence.

¹⁵ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 4, lines 11-24.

1 *available to southwestern Utah.* This would be a very inefficient and high
2 cost configuration.¹⁶ [Emphases in quotations added throughout.]

3 The application proposed to:

4 ... provide gas service in the communities of Richfield, Cedar City and
5 portions of St. George and some communities adjacent to the transmission
6 line (in 1987). Other communities ... and intervening areas along the
7 pipeline would be served by facilities constructed during 1988 ... Gas
8 service will be provided to communities in the Counties of Juab, Millard,
9 Beaver, and Garfield and to other communities not initially served which are
10 in the vicinity of the system and to the remaining areas of St. George to the
11 extent that such service will be economically feasible.¹⁷

12 On 5 January 1987, the Commission issued MFSC the requested certificate,
13 providing that it would:

14 ... lapse by its own terms as to communities where distribution facilities
15 have not been substantially completed by December 31, 1989, unless
16 construction is prevented by circumstances beyond Mountain Fuel's control
17 or the time for construction is extended by this Commission.¹⁸

18 Over the succeeding fourteen months, the Company was involved in extended
19 negotiations with local governments in southern Utah. During that period, MFSC
20 was continuously assessing whether to end its new transmission line at Cedar
21 City, or continue to St George. Eventually, the Company decided it had received
22 franchises from communities south of Cedar City with sufficient potential load to
23 make it worthwhile to go all the way.

¹⁶ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 4, line 29, through page 5, line 1.

¹⁷ Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity dated 2 May 1986 in Docket 86-057-03: page 4, item 8.

¹⁸ Report and Order dated 5 January 1987 in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity: page 25, item 3, third sentence.

1 In January 1988, there was an exchange of correspondence between the Mayor
2 of Panguitch, eager for natural gas service and holding out some possibility of
3 starting a municipal electric utility (presumably using gas to generate its own
4 power), and Mountain Fuel, weighing the cost of building some 23 miles of pipe to
5 reach this, the only Garfield County community to be seriously considered for
6 natural gas service, against the city's modest potential load (because of its small
7 population). It would take another ten years and legislative action to resolve this
8 quandary.

9 By the end of 1988, service had been extended to at least 49 communities in
10 Sanpete, Sevier, Piute, Iron and Washington counties. There remained at least
11 15 communities further west in Iron, Washington, Millard and Beaver counties that
12 wanted natural gas, and that MFSC wanted to supply. In Juab County, Mountain
13 Fuel's ambition was limited to serving Nephi, but the city was ambivalent.

14 [I will subsequently refer to this as the Southern System Expansion.]

15 [It should be noted that the expansion into northern Cache County, including the
16 community of Cove, and into Franklin County, Idaho, including the communities of
17 Franklin, Whitney and Preston, took place towards the end of 1990.]

18
19 Q Was the Southwestern Utah Expansion next?

20 A Yes. The Company's Application had not referred to service to Beaver, Juab,
21 Garfield and Millard counties, or parts of Iron and Washington counties, as being

1 dependent upon any facilities other than the Company's own. In fact Company
2 policy witness Robinson had written (somewhat at odds with the application itself):

3 ... the gas transmission main line would be constructed by Mountain Fuel
4 or under its supervision in 1987 ... During that same construction season,
5 Mountain Fuel Supply would build the distribution system to serve as many
6 of the principal communities as could reasonably be connected. In 1988,
7 Mountain Fuel Supply would add distribution systems to serve communities
8 adjacent to the transmission pipeline not connected in 1987. Also in 1988
9 or later, pipelines could be built which would serve (other communities) as
10 these lines are economically justified.¹⁹

11 Neither the Company's Application nor the Commission's Report and Order had
12 referred to service to Beaver, Juab, Garfield and Millard counties, or parts of Iron
13 and Washington counties, as being dependent upon any facilities other than the
14 Company's own.

15 Indeed, Mr Robinson had appeared to commit MFSC to building all that was
16 needed (see the italicised portion of his testimony on page 7, lines 5 and 6,
17 above).

18 However, on 13 February 1990, the Company moved for an extension of time to
19 31 December 1993 to construct distribution systems in those four counties
20 because:

21 At the time of the hearings in this case it was anticipated that a Wyoming-
22 to-California natural gas pipeline (either Wycal or Kern River) would run
23 southwest through Utah in an area west of Mountain Fuel's present pipeline
24 and that the proposed pipeline could make feasible the extension of natural
25 gas service to communities that could not otherwise be economically
26 served from Mountain Fuel's own pipeline ... The Wycal/Kern River pipeline
27 has not yet been constructed, however ... It now appears that construction

¹⁹ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 4, lines 2-11.

1 of such a pipeline may well begin during 1990 and that service may be
2 available in early 1992.²⁰

3 The motion was denied without prejudice following a 5 April 1990 hearing,
4 essentially because the matter was not ripe for consideration by the Commission.

5 On 15 February 1991, the Company again moved the Commission, this time
6 asking it to remove the deadline altogether:

7 Service to Juab County, is considered economic, but *the Company has*
8 *been prevented from providing service in Juab County by Nephi's failure to*
9 *grant a franchise. Service to Garfield County (meaning Panguitch)*
10 *continues to be uneconomic ... Construction of the Kern River pipeline has*
11 *now begun, and it may be providing natural gas transmission service in*
12 *early 1992 ... With the contemplated expansion off the Kern River Pipeline,*
13 *Mountain Fuel will have completed the extension of service to communities*
14 *in all counties that are included in the company's certificate with the*
15 *exception of Juab County and Garfield County ... There remain additional*
16 *areas within the counties covered by the Certificate which are still*
17 *uneconomical for expansion.*²¹

18 On 17 April 1991, the Commission removed the deadline.²²

19 On 26 September 1991, Mountain Fuel asked the Commission to approve:

20 ... proposed rates for communities in Southwestern Utah that will be served
21 by distribution facilities connected to the Kern River Pipeline ... in an area
22 contiguous to Mountain Fuel's current service territory ... in Beaver, Millard,
23 Iron and Washington counties ... Additionally, customers in Juab County

²⁰ Motion for Modification of Certificate dated 13 February 1990 in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity: page 2, second paragraph, first and third sentences; and page 3, first complete paragraph, second sentence.

²¹ Second Motion for Modification of Certificate dated 15 February 1991 in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity: page 2, first complete paragraph, last two sentences; page 3, first paragraph, first sentence; and page 3, second paragraph, first and third sentences.

²² Order Granting Clarification and Modification of Certificate dated 17 April 1991 in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity.

1 adjacent to the feeder line could receive service from the proposed
2 expansion.²³

3 The Kern River Pipeline follows a roughly north-northeast to south-southwesterly
4 track, approximating I-15, but to the west of the freeway, and departing farther
5 from the Interstate as they go south. The feeder line mentioned appears to tap off
6 the Kern River Pipeline west of Nephi and follow a more southwesterly track
7 through Leamington and Lynndyl to Delta. The only Juab County communities
8 that might be considered adjacent to the feeder line are Jericho Junction, Mona,
9 *and Nephi.*

10 Mountain Fuel still had its eye on serving Nephi (see the italicised portions on
11 page 10, lines 11-14, and this page, line 11, above), but Nephi was more
12 interested in adding a city-owned gas utility to its municipal electric undertaking,
13 something its propinquity to the Kern River Pipeline uniquely qualified the city to
14 do, and which it eventually did.

15 [I will subsequently refer to this as the Southwestern Utah Expansion.]

16

17 Q What came next?

18 A On 24 December 1992, Mountain Fuel asked the Commission to approve tariff
19 modifications that it said “should allow service extensions to Elmo, Cleveland and
20 Silver Reef”. The Company’s principal aim seems to have been to embed the
21 option of 10 or 20 year GSS rate periods into its Tariff so that it would no longer be

²³ Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13: page 1, first sentence; and page 2, item 3 under the heading “New Service Area”, first and third sentences.

1 necessary to obtain Commission approval on a case-by-case basis.²⁴ [I will
2 subsequently refer to this as the GSS Case.]

3 The Commission approved the modifications in an 8 April 1993 Order.²⁵

4 Then, on 4 June 1993, the Company submitted its Application for Approval of
5 Rates for Elmo and Cleveland Towns.²⁶ [Elmo and Cleveland Case.]

6 The Commission approved the application on 11 June 1993, and that appears to
7 have been the last extension of service under GSS rates.²⁷

8

9 Q How would you describe the next phase of expansion?

10 A Mountain Fuel Supply Company turned to a new method of charging for system
11 extensions into unserved communities. On 24 June 1996 it applied:

12 ... to the Commission for approval of new tariff provisions establishing an
13 Extension Area Charge (EAC), as a means of recovering non-refundable
14 payments required in extension areas, and for approval of a specific EAC
15 for customers in the area known as Ogden Valley ...²⁸

16 telling the Commission that:

²⁴ Application of Mountain Fuel Supply Company for Approval of Tariff Modifications Relating to Service in New Service Extension Areas dated 24 December 1992 in Docket 92-057-T01: page 1, item 2 under the heading "Background", first sentence.

²⁵ Order dated 8 April 1993 in Docket 92-057-T01, the Application of Mountain Fuel Supply Company for Approval of Tariff Modifications Relating to Service in New Service Extension Areas.

²⁶ Application of Mountain Fuel Supply Company for Approval of Rates for Elmo and Cleveland Towns dated 4 June 1993 in Docket 93-057-03.

²⁷ Order dated 11 June 1993 in Docket 93-057-03, the Application of Mountain Fuel Supply Company for Approval of Rates for Elmo and Cleveland Towns.

²⁸ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 1, first paragraph.

1 ... in new service extension areas where the non-refundable payment
2 cannot otherwise be collected, the Company proposes to offer customers,
3 at its option, a monthly EAC in lieu of the non-refundable payment. The
4 EAC will be calculated to provide sufficient revenue to recoup the total non-
5 refundable payment that would otherwise be collected in a new service
6 extension area and allow the Company to recover its allowed return over
7 the duration of the repayment term. The EAC may be used in conjunction
8 with regular (GS-1) or extension tariff (GSS) rates.²⁹

9 [EAC/Ogden Valley Case.]

10 On 19 June 1997, MFSC applied for an EAC for New Harmony, its second
11 application, and the only one to be approved under the first EAC regime.³⁰ [New
12 Harmony Case.]

13
14 Q Please tell us about the Panguitch applications and House Bill 180.

15 A Meanwhile, On 21 February 1997, Mountain Fuel, more than ten years after first
16 proposing to serve Panguitch as part of its southern Utah expansion, finally asked
17 the Commission to approve a specific proposal to subsidise the utility in bringing
18 natural gas to this Garfield County city. The Company proposed a newly created
19 Rural Community Charge (RCC), specifically to fund expansion to Panguitch, but
20 also potentially to Elberta, Goshen, Laketown, and Garden City.³¹ [RCC Case.]

²⁹ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: pages 4-5, item 11.

³⁰ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12.

³¹ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04.

1 After the Commission denied this Application,³² QGC allied with Panguitch state
 2 senator Tom Hatch to take its campaign to the 1998 General Session of the
 3 Legislature, which passed House Bill 180:

4 (1) ... the Commission shall approve an application of a gas corporation to
 5 extend its system to previously unserved municipalities in its service
 6 territory if the application satisfies both (sic) of the following requirements:

7 (a) the extension of service cannot be economically provided under
 8 existing tariff provisions for extension of service;

9 (b) the charges to customers in the extension areas will not be less than
 10 the charges to customers in areas where service has been extended
 11 under existing tariff provisions on a per-customer basis; and

12 (c) any application, together with any increases, that could result from
 13 previously approved applications, does not result in an incremental
 14 increase in annual rates and charges to existing customers of more than
 15 1/5% as measured by rates in effect on July 1, 1998.³³

16 But, although the Legislature obviously *intended* to impose a clearly limited
 17 financial burden on Questar's customers at large to subsidise certain rural
 18 expansion schemes, it equally evidently only meant the provisions of the Bill to
 19 apply for a *limited* time:

20 (2) Section 54-3-8.1 is repealed December 31, 1999.³⁴

21 [HB180.]

22 Consequently, the utility, now calling itself Questar Gas Company, on 23 March
 23 1998 submitted an Application to the Commission for approval of an EAC for

³² Order Denying Application for Rural Connection Charge Tariff dated 9 May 1997 in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah.

³³ Application of Questar Gas Company for Approval of an Extension Area Charge for Panguitch, Utah, dated 23 March 1998 in Docket 98-057-22: Exhibit A: Enrolled Copy of 1998 General Session H.B. 180, Extension of Gas Service Territories, Section 2, UCA §54-3-8.1, Power of commission to approve natural gas applications to previously unserved areas, subsection (1).

³⁴ Application of Questar Gas Company for Approval of an Extension Area Charge for Panguitch, Utah, dated 23 March 1998 in Docket 98-057-22: Exhibit A: Enrolled Copy of 1998 General Session H.B. 180, Extension of Gas Service Territories, Section 4, UCA §63-55-254, Repeal dates, Title 54, subsection (2).

1 Panguitch. The Application was almost identical to its previous RCC Case
2 Application (compare Exhibits D and E with Exhibits E and F of the RCC Case
3 Application).³⁵ [Panguitch Case.]

4 Six weeks later, Questar submitted an application for Oak City, representing that
5 an EAC of \$20.00 (together with a QGC contribution of \$10.00) a month for 15
6 years would enable the Company to recoup its construction costs of \$707,000 (up
7 front payment of \$507,000) as provided in HB180.³⁶ [Oak City Case.]

8 In 1998, Questar filed an application to serve Joseph and Sevier, Utah.³⁷ [Joseph
9 and Sevier Case.]

10 In 1999, Questar filed an application to serve Fayette, Utah.³⁸ [Fayette Case.]

11 On 17 March 1999, Questar filed an application to serve Cedar Fort, Utah,
12 pursuant to the provisions of HB180.³⁹ [Cedar Fort.]

13 On 17 June 1999, Questar filed an application to serve Brian Head, Utah, in
14 accordance with HB 180.⁴⁰ [Brian Head.]

³⁵ Application of Questar Gas Company for Approval of an Extension Area Charge for Panguitch, Utah, dated 23 March 1998 in Docket 98-057-22.

³⁶ Application of Questar Gas Verified (sic) Company for Approval of Terms of Gas Service to Customers in Oak City dated 5 May 1998 in Docket 98-057-04: page 1, item 2; page 2, item 4; and page 3, item 5.

³⁷ Docket 98-057-06.

³⁸ Docket 99-057-03.

³⁹ Memorandum to the Commission from Ric Campbell, Lowell Alt and Darrel S Hanson for the Division of Public Utilities, in Docket 99-057-05, the Application of Questar Gas Company for Approval of an Extension Area Charge for Cedar Fort, Utah, dated 19 April 1999.

⁴⁰ Memorandum to the Commission from Ric Campbell, Lowell Alt and Darrel S Hanson for the Division of Public Utilities, in Docket 99-057-09, the Application of Questar Gas Company for Approval of an Extension Area Charge for Brian Head, Utah, dated 30 June 1999.

1 On 26 August 1999, Questar filed an application to serve Newton and Clarkston,
2 Utah, representing that an EAC of \$16.50 a month for 15 years would cover the
3 required upfront payment of \$466,000.⁴¹ [Newton and Clarkston.]

4 On 26 August 2000, after the sunset of HB180, Questar filed an application to
5 serve Wales, Utah, representing that an EAC of \$17.00 a month for 15 years
6 would cover the required upfront payment of \$102,898.⁴² [Wales.]

7

8 COSTS, RECOVERY & RATE OF RETURN

9 Q As you reviewed the documents, what did you discover regarding costs and
10 recovery, including rate of return?

11 A On 2 May 1986, Mountain Fuel Supply Company applied for a Certificate of Public
12 Convenience and Necessity “to extend its natural gas distribution system” to serve
13 communities in Sanpete, Sevier, Piute, Iron and Washington counties “in an area
14 contiguous to (its) existing service territory”, the Southern System Expansion.⁴³

15 MFSC used 9½% as the cost of debt capital in its analysis⁴⁴ and estimated that:

⁴¹ Memorandum to the Commission from Ric Campbell, Lowell Alt and Darrel S Hanson for the Division of Public Utilities, in Docket 99-057-15, the Application of Questar Gas Company for Approval of an Extension Area Charge (EAC) to serve the Communities of Newton and Clarkston, Utah, dated 20 September 1999.

⁴² Memorandum to the Commission from Ric Campbell, Lowell Alt and Darrel S Hanson for the Division of Public Utilities, in Docket 00-057-07, the Application of Questar Gas Company for Approval of an Extension Area Charge (EAC) to serve the Community of Wales, Utah, dated 13 September 2000.

⁴³ Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity dated 2 May 1986 in Case 86-057-03, page 1.

⁴⁴ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 3, lines 28-31.

1 The proposed (246 mile) transmission line extending from a pipeline
2 connection with Mountain Fuel Resources, Inc., near Indianola through
3 Sanpete, Sevier, Piute, Garfield, Iron, and Washington Counties would cost
4 \$30,400,000

5 and

6 The distribution facilities necessary to serve various communities in central
7 and southern Utah would cost \$20,700,000.⁴⁵

8 Company policy and financial witness Garry H Robinson testified that:

9 In addition, the cost of debt for such a project has fallen significantly in the
10 last year.⁴⁶

11 By the time the Commission issued its Report and Order in this Docket, the
12 projected cost of distribution facilities was down to \$17,500,000.⁴⁷

13 Exhibit 1.4 to finance witness Glenn Robinson's Prepared Testimony filed with the
14 Application, purported to be MFSC's Balance Sheet, represented that the
15 Company had assets in excess of \$638,000,000, including more than \$7,000,000
16 in cash and \$58,000,000 in customer accounts receivable.

17 Cost of capital has been even lower in recent years, and prudent corporations
18 have taken their opportunities to refinance their debt, sometimes more than once,
19 suggesting that Questar EAC calculations using even a reduced interest rate
20 overstate the costs of extending the utility's infrastructure, especially when the

⁴⁵ Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity dated 2 May 1986 in Case 86-057-03: page 2, item 5, second sentence of the first paragraph and first sentence of the second.

⁴⁶ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 6, lines 1-3

⁴⁷ Report and Order in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 5 January 1987: page 8, first paragraph.

1 Company experiences no exceptional project risk because all the costs have been
 2 put into ratebase, and enjoys an authorized rate of return that vastly outstrips its
 3 overall risk.

4 In the 1991 Southwestern Utah Expansion case, Mountain Fuel estimated that the
 5 cost of the distribution facilities needed to serve communities in southwestern
 6 Utah off the Kern River Pipeline would be \$13,600,000,⁴⁸ and

7 by maintaining the expansion rate for 20 years, the average rate of return
 8 for the project will be 11.04%, which is approximately equal to the current
 9 embedded cost of capital (11.3%).⁴⁹

10 In its 1993 Elmo and Cleveland Application, the Company wrote:

11 Mountain Fuel has estimated that the distribution facilities necessary to
 12 serve the communities in this area will cost approximately \$782,300 ... by
 13 maintaining the expansion rate for 20 years, the average rate of return for
 14 the project, with an investment by Mountain Fuel of \$604,000, will be
 15 11.03%, which is equal to the current allowed return on rate base ... Emery
 16 County has agreed to assist in the up-front contribution of \$178,300⁵⁰

17 The Commission's Order approving this application included a determination that:

18 If financial projections are not realized, the impact of cross-subsidization of
 19 rates by other customers would be minimal because the size of the project
 20 is small relative to the size of Mountain Fuel's system.⁵¹

21 In the EAC/Ogden Valley case, Mountain Fuel estimated that its total:

⁴⁸ Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13: page 3, item 5 under the heading "Potential Customers", third sentence.

⁴⁹ Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13: page 4, first complete paragraph, second sentence.

⁵⁰ Application of Mountain Fuel Supply Company for Approval of Rates for Elmo and Cleveland Towns dated 4 June 1993 in Docket 93-057-03: page 3, item 5 under the heading "Potential Customers", first paragraph, third sentence, and second paragraph, first sentence; and item 6 under the heading "Contribution", first sentence.

⁵¹ Order dated 11 June 1993 in Docket 93-057-03, the Application of Mountain Fuel Supply Company for Approval of Rates for Elmo and Cleveland Towns, page 2, item 5.

1 project costs of constructing a natural gas transmission line and distribution
 2 facilities required to bring natural gas to Ogden Valley are approximately
 3 \$4.5 million. Under Mountain Fuel's existing New service Extension Area
 4 Tariff, this project requires an up front payment of \$2.3 million.⁵²

5 Page 1 of Exhibit B also shows that the present value of the estimates EAC
 6 equals the \$2.3 million required payment.⁵³

7 In its New Harmony Memorandum, the Division observed that:

8 Mountain Fuel's projected costs of constructing the natural gas
 9 transmission line and distribution facilities required to bring natural gas to
 10 New Harmony are approximately \$240,000. Under Mountain Fuel's New
 11 Service Extension Area Tariff § 3.31, this project would require an up-front
 12 payment of \$161,600.⁵⁴

13 The Company's RCC and Panguitch Applications estimated the cost of 19.7 miles
 14 of high pressure steel transmission line from its southern Utah pipeline at Fremont
 15 Pass southeast to, and then south along, US 89 to Panguitch, plus a distribution
 16 system in the city, at approximately \$3.9 million.⁵⁵

17 And in the subsequent Oak City case Application, Questar wrote:

18 QGC's projected costs of constructing the natural gas transmission line and
 19 distribution facilities required to bring natural gas to Oak City are
 20 approximately \$707,000. Under QGC's New Service Extension Area Tariff
 21 § 7.01, this project would require an up-front payment of \$507,000.⁵⁶

⁵² Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 2, item 4.

⁵³ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 6, item 13, fourth sentence.

⁵⁴ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12: page 2, item 3.

⁵⁵ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04, and Application of Questar Gas Company for Approval of an Extension Area Charge for Panguitch, Utah, dated 23 March 1998 in Docket 98-057-22: page 2, item 4, first three sentences; and item 3, first sentence.

⁵⁶ Application of Questar Gas Verified (sic) Company for Approval of Terms of Gas Service to Customers in Oak City dated 5 May 1998 in Docket 98-057-04: page 1, item 2, first two sentences.

1 EXTENSION AREA RATES

2 Q And what can you say about rates?

3 A In 1986, Company statistical survey witness, James L Balthaser, testified that, in
4 the Roosevelt case:

5 a factor of 1.3 times standard (Salt Lake City) rates was used for a period of
6 15 years to reflect the higher cost of delivering gas to that area.⁵⁷

7 A Gas Improvement District had been formed to finance and acquire a gas
8 transmission pipeline that the Company would use to provide service in Little
9 Cottonwood. Mountain Fuel agreed: to require "Canyon Customers" (as defined in
10 the special tariff terms) to demonstrate they had entered into an agreement with
11 the District to pay their fair share of its expenses; to obtain its customers' consent
12 for it to share their consumption data with the District; and to terminate service to
13 customers who failed to honour their payment obligation to the District.⁵⁸

14 For the Southern System Expansion, Mr Balthaser wrote in 1986 that:

15 We are proposing that the multiple be based on non-gas costs with gas
16 costs and supplier non-gas costs being the same in all of the company's
17 service areas. An appropriate formula to determine GSS rates for this
18 proposed service area is two times the first block of the existing Utah GS-1
19 distribution non-gas costs. (A \$7.50 minimum bill rather than a customer
20 charge is used in connection with this rate design.)⁵⁹

⁵⁷ Prepared Testimony of James L Balthaser in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 7, lines 1-3.

⁵⁸ Report and Order dated 2 October 1986 in Case 86-057-08, the Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in Little Cottonwood Canyon, pages 1 & 2: item 2, first sentence; and item 3.

⁵⁹ Prepared Testimony of James L Balthaser in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, page 9, lines 23-30.

1 Mr Balthaser further admitted that:

2 The revenues generated are \$284,737 short of the revenue requirement ...
 3 We propose that rates derived by using the pricing formula described above
 4 be in effect for a ten-year period⁶⁰

5 [Customers in the Cache County, Utah, and Franklin County, Idaho, expansion
 6 area paid GSS rates for 10 years, expiring on 1 December 2000.]

7 For the southwestern Utah expansion off the Kern River pipeline in 1991:

8 Mountain Fuel proposes rates for Southwestern Utah customers that will be
 9 the same as the GSS, IS, and IT rates charged its customers in other
 10 expansion areas ... Mountain Fuel proposes that these rates will be
 11 effective for 20 years⁶¹

12

13 Q Why 20 years of GSS payments for Southwestern Utah Expansion customers?

14 These communities were included in the southern expansion case; why not 10
 15 years like those places?

16 A It is interesting to note that the Company included in this proposal a tie line
 17 between its recently completed transmission line at Cedar City and the Kern River

18 Pipeline:

19 This supply may be used from time to time to feed gas to the existing
 20 southern Utah system, providing a dual source of supply for that system.
 21 This additional gas supply source will minimize the risk of service disruption
 22 in this area.⁶²

⁶⁰ Prepared Testimony of James L Balthaser in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, page 10, lines 7-8 and 15-17.

⁶¹ Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13, pages 2 & 3, item 4 under the heading "Rate Proposal": first and fifth sentences.

⁶² Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13: page 4, item 6 under the heading "Gas Supply": fifth and sixth sentences.

1 In other words, customers in the areas to be served off the Kern River Pipeline
2 would pay GSS rates for 20 years (including the communities in western Iron
3 County, northwest Washington County, Millard County, and Beaver County that
4 are currently due to pay GSS rates until 1 September or 1 November 2012), in
5 part to pay for a tie line intended to secure supply to customers served by MFSC's
6 southern Utah expansion system who were committed to paying GSS rates for
7 only 10 years (and whose obligation to pay GSS rates ended on 1 September
8 1997 or 1 December 1998).

9 The Commission approved the Application in an 8 November 1991 Order:

10 3. Mountain Fuel has negotiated a gas supply contract which has pricing
11 provisions which are favorable when compared to Mountain Fuel's existing
12 gas supply sources, but which requires a load factor higher than existing
13 contracts.

14 4. The construction of a tie in between the proposed expansion and
15 Mountain Fuel's existing Southern Utah system will allow Mountain Fuel to
16 utilize the higher load factor gas supply and will loop a substantial portion of
17 the Southern system providing enhanced reliability.⁶³

18 It isn't clear to me from what I have read whether the apparent injustice of
19 charging Southwestern Utah Expansion customers for a tie line to benefit
20 Southern System Expansion customers has been somehow offset by favorable
21 prices for gas tapped off the Kern River Pipeline, nor whether these prices have
22 been sufficiently favourable to have somehow lowered the rolled-in commodity
23 cost for all GS-1 customers. I can only recommend that the Commission enquire
24 into these aspects during the 27 March hearing and satisfy itself regarding the

⁶³ Order dated 8 November 1991 in Docket 91-057-13, the Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah, page 2 under the heading "Findings of Fact".

1 balance of interests issue. I would further recommend that the Commission
 2 require the Division to produce, and that the Commission publish, an audit report
 3 on all these expansion schemes.

4 For Elmo and Cleveland in 1993:

5 Mountain Fuel proposes GSS rates for 20 years for residential and
 6 commercial customers in Elmo and Cleveland.⁶⁴

7 In the EAC/Ogden Valley case:

8 The calculation of the non-refundable payment the EAC is designed to
 9 collect includes the projected costs of providing natural gas service,
 10 including projected customer additions, over a 20-year period, and the
 11 projected revenue from that service. Because these costs include the costs
 12 that the new premises fee is designed to partially recover, it is not
 13 appropriate to charge the new premises fee during the period the EAC is in
 14 place. The proposed tariff provisions also provide for a periodic
 15 computation between the present value of the revenue actually collected
 16 and the required non-refundable, up-front payment. The term of the EAC
 17 will be lengthened or shortened to insure that the EAC recovers the
 18 required payment and return, but does not over-recover this amount.⁶⁵

19 For Ogden Valley, Mountain Fuel proposes an EAC of \$27.50 per
 20 residential customer and an EAC of \$27.50 plus \$2.5191 per decatherm for
 21 usage in excess of 45 Dth per month for commercial customers. These
 22 charges are identical to those proposed by the (Ogden Valley Natural Gas
 23 Improvement) District.⁶⁶

24 In its New Harmony Application, Questar said:

⁶⁴ Application of Mountain Fuel Supply Company for Approval of Rates for Elmo and Cleveland Towns dated 4 June 1993 in Docket 93-057-03, page 2, item 4 under the heading "Rate Proposal": first sentence.

⁶⁵ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 5, item 12, first four sentences.

⁶⁶ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 5-6, item 13, first and second sentences.

1 During the canvass, customers were told that they would pay GS-1 rates
2 with a monthly EAC between \$25 and \$30⁶⁷

3 Using the projected capital costs with results of the actual sign up, the
4 required EAC for residential customers in New Harmony would be \$25.14
5 for a projected 10 year period. The EAC for commercial customers would
6 be \$25.14 plus \$2.6235 per decatherm for usage in excess of 45 Dth per
7 month.⁶⁸

8 With approval of the EAC as set forth in this Application and proposed Tariff
9 Sheet No. 216, construction costs of extending natural gas service to New
10 Harmony will be recouped from customers within this extension area as
11 provided for under Mountain Fuel's service extension tariff.⁶⁹

12 When Questar filed its RCC Application, it estimated that a monthly EAC between
13 \$55 and \$75 would be required to amortise the up-front payment for Panguitch.
14 That would price natural gas above the cost of alternative fuels, so the Company
15 proposed that about 380 new residential customers would pay \$30 a month for a
16 projected 15 year term. Some 80 new commercial customers would also pay the
17 \$30 RCC, plus an additional \$2.7481 a decatherm for usage in excess of 45 Dth
18 per month.⁷⁰

19 ... the Company would bear the costs not covered by the RCC until the
20 Company's next general rate case, when recovery of such costs would then
21 be included when establishing rates for all customers.⁷¹

22 QGC's Oak City Application revealed that:

⁶⁷ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12: page 1, item 2, sixth sentence.

⁶⁸ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12: page 2, item 4, first two sentences.

⁶⁹ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12: page 2, item 5.

⁷⁰ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04.

⁷¹ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04: page 7, item 14.

1 During the canvass, the Company informed customers that they would pay
2 GS-1 rates with a monthly EAC of \$20 ...⁷²

3 Although residential customers were told that the EAC would be \$20 per
4 month with GS-1 rates, and commercial customers were told \$20, plus
5 \$2.087 per Dth for usage in excess of 45 Dth per month, the actual EAC
6 should be \$30 with GS-1 rates for a projected 15-year period for residential
7 customers and \$30, plus \$3.1365 per Dth for usage in excess of 45 Dth per
8 month for commercial customers based on minimum system costs ... the
9 Company proposes, in this instance only, that it be responsible for the per
10 customer \$10 monthly difference ...⁷³

11 With approval of the EAC as set forth in this Application and proposed Tariff
12 Section 8.03, construction costs of extending natural gas service to Oak
13 City will be recouped from customers within this extension area as provided
14 for under QGC's service extension tariff.⁷⁴

15

16 ECONOMIC DEVELOPMENT

17 Q In your Stipulation Testimony, page 5 lines 9-21, you spoke about the contention
18 that the Application or Stipulation are about economic development. What other
19 relevant evidence have you found from the documents you have reviewed?

20 A In his 2 May 1986 Prepared Testimony, Company policy and financial witness
21 Glenn H Robinson said:

22 Those currently involved in economic development activities in (central and
23 southwestern Utah) claim that the lack of natural gas service is one of the

⁷² Application of Questar Gas Verified (sic) Company for Approval of Terms of Gas Service to Customers in Oak City dated 5 May 1998 in Docket 98-057-04: page 2, item 3, first, second, fourth, eighth and ninth sentences; and page 2, item 3, third sentence.

⁷³ Application of Questar Gas Verified (sic) Company for Approval of Terms of Gas Service to Customers in Oak City dated 5 May 1998 in Docket 98-057-04: page 2, item 4, first, and third sentences.

⁷⁴ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12: page 3, item 5.

1 obstacles to attracting an industrial base which would allow further
2 economic development.⁷⁵

3 The Resolution of the Five County Association of Governments included with Mr
4 Robinson's Prepared Testimony as Exhibit 1.3 (previously referred to on page 7,
5 line 22 through page 8, lines 1-2 of this Stipulation Supplementary Testimony)
6 says:

7 Whereas the construction of natural gas distribution facilities will contribute
8 to the general prosperity and economic welfare of Southern Utah ...⁷⁶

9

10 Q Do you find the argument that Mr Robinson was reporting convincing?

11 A No. He had continued to tell the Commission that

12 Since 1970 [which I note is about 15 years], the population growth of Sevier
13 and Sanpete counties combined has increased by 57%. Washington and
14 Iron counties combined increased by an impressive 113%.⁷⁷

15 I note that this growth had taken place without the alleged catalytic benefits of
16 natural gas service.

17 Neither Questar nor any of the other stipulants has provided any substantial
18 evidence in this Docket of any economic development benefits that may have
19 accrued because of the extension of natural gas service in any particular area, nor
20 of any failure to land a new venture or jobs because of the lack thereof.

⁷⁵ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, page 5, lines 17-21.

⁷⁶ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, Exhibit 1.3.

⁷⁷ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986, page 5 lines 33 through page 6, line 1.

1 Q What else?

2 A The Commission recorded, in its 5 January 1987 Report and Order in Docket 86-
3 057-03, the testimony of Division witness Nile W Eatmon that:

4 the availability of natural gas in the proposed service area would provide
5 substantial consumer benefits in the form of reduced energy expenditure,
6 subject to the maintenance of stable natural gas prices and adequate
7 returns on conversion costs.⁷⁸

8 That supports my view that the desire of local governments, residents and
9 business owners in rural communities to have natural gas service is mostly about
10 their convenience and cost.

11 These current proceedings arose from a March 2005 complaint that Beaver
12 County's economic development was being impeded by the higher rates that
13 Questar's customers there were having to pay so the Company could recoup both
14 the cost of and a rate of return on the investment to extend its infrastructure to
15 bring natural gas service to the County, its cities and towns. Subsequently, a
16 gallimaufry of local government entities has joined the proceedings, and the rate
17 changes proposed in the Stipulation would reduce rates for customers in more
18 than thirty municipalities. This notwithstanding an extensive record of successive
19 applications for the extension of natural gas infrastructure into communities
20 wanting it on the ground that it would facilitate their economic development, and
21 despite a record entirely lacking in any credible evidence either that an extension
22 of gas service has directly led to the generation of jobs, tax revenues or other
23 economic benefits in any particular community, or that the GSS or EAC rates have

⁷⁸ Report and Order in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 5 January 1987, page 11, last paragraph.

1 directly led to the loss of jobs, tax revenues or other economic benefits that would
2 otherwise have benefited a particular community.

3

4 INFORMATION OF OFFICIALS AND RESIDENTS IN RURAL COMMUNITIES

5 Q As you reviewed the documents supplied to you by Questar, the Division and the
6 Committee in response to your data requests, what opinion did you form about the
7 level of information that expansion area communities, residents and business
8 owners had regarding the GSS and EAC tariffs?

9 A In my opinion, officials and residents, including business owners, of the rural
10 communities were well informed of what was proposed.

11

12 Q What led you to that opinion?

13 A Glenn H Robinson, then Vice President, Marketing, for Mountain Fuel Supply
14 Company, filed prepared testimony in the Southern System Expansion case in
15 which he said that:

16 ... over the past two decades, Mountain Fuel Supply has been approached
17 various times by business and civic leaders from (central and southwestern
18 Utah) concerning the feasibility of providing gas service.⁷⁹

19 the Company has approached elected officials, business leaders, and
20 individuals from the proposed service area assessing their desire for
21 natural gas service. It is Mountain Fuel Supply's position that the citizens
22 of the area desire gas service and they will be willing to use the gas service
23 in sufficient number and to purchase sufficient volumes to justify the cost of
24 providing the service. Attached as Exhibit 1.3 is a resolution adopted by

⁷⁹ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 5, lines 15-17.

1 the Five County Association of Governments supporting the need for
2 natural gas service.⁸⁰

3 We have requested franchises from towns, cities and counties in the
4 proposed service area. Discussion with city and county officials lead us to
5 believe that franchises are available for most, if not all, of the cities and
6 counties in the proposed service areas. At the time of the hearing, we will
7 file a list of all franchises Mountain Fuel has obtained.⁸¹

8 In its 21 October 1986 Position Statement in Docket 86-053-03, MFSC wrote:

9 Many communities in central and southwestern Utah have granted
10 applicants long-term franchises ... the communities for which Mountain
11 Fuel currently has franchises (are shown in Column B on page 1 of RJB
12 Exhibit 2.1).⁸²

13 City and community support for natural gas service from a certificated
14 public utility must be demonstrated. An essential demonstration of such
15 support is the issuance of acceptable franchises on a timely basis. Should
16 Mountain Fuel be the successful applicant for a certificate, given the current
17 posture of certain Coalition members on their franchises, Mountain Fuel
18 would condition its acceptance of the certificate upon the receipt of
19 necessary franchises within 30 days of the Commission order. To be
20 acceptable, the franchises will have to be in the form attached as Exhibit A
21 to this statement.⁸³

22 Among other things, the model franchise at Exhibit A included:

23 (MFSC) shall furnish gas service without preference or discrimination
24 among customers of the same service class at reasonable rates, in
25 accordance with all applicable tariffs of (MFSC) approved by and on file
26 with the Public Service Commission of Utah ... (MFSC) may require
27 applicants for gas service to execute a gas service agreement as a

⁸⁰ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 7, line 27 through page 8 line 2.

⁸¹ Prepared Testimony of Glenn H Robinson in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 2 May 1986: page 9, line 22-27.

⁸² Position Statement of Mountain Fuel Supply Company in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 21 October 1986, page 5, first complete paragraph, first sentence; page 7, last sentence; and Exhibit B.

⁸³ Position Statement of Mountain Fuel Supply Company in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 21 October 1986: page 7, first complete paragraph.

1 condition for receiving service. (MFSC) shall have the right to contract with
 2 each customer regarding the installation of main and service pipes from
 3 their connection with the supply lines of (MFSC) in the streets to and
 4 including the meter located on the customer's premises.⁸⁴

5 On 26 November 1986, MFSC told the Commission that:

6 the following cities towns and counties have granted acceptable franchises
 7 to Mountain Fuel (see Column C on page 1 of RJB Exhibit 2.1)⁸⁵

8 On 19 December 1986, the Company reported that:

9 Mountain Fuel has obtained sufficient franchises to proceed with
 10 construction activities extending its distribution system as far south as
 11 Cedar City. The recent obtaining of franchises from Mt. Pleasant, Spring
 12 City, Richfield, and Manti have made the project economically feasible.
 13 Copies of these franchises are enclosed for your review along with the
 14 franchise from Santa Clara. *At this time we have a total of 32 franchises in*
 15 *hand.*⁸⁶

16 [However, in the documents provided to me in data responses, I have only been
 17 able to find the 29 counties, cities and towns named by the Company up to this
 18 point that are listed in Column D on page 1 of RJB Exhibit 2.1.]

19 In its 5 January 1987 Report and Order in Docket 86-057-03 (which had been
 20 consolidated with three other cases) the Commission recorded that:

21 Mountain Fuel has received franchises from the majority of towns, cities,
 22 and counties in the proposed service area, indicating that the citizens who
 23 reside in those communities consider natural gas service a matter of public
 24 convenience and necessity.

⁸⁴ Position Statement of Mountain Fuel Supply Company in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 21 October 1986: Exhibit A, Article III under the heading "Conditions", item 2 under the heading "Terms of Service".

⁸⁵ Letter to PSCU from Steven W Snarr, Managing Attorney for MFSC, in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 26 November 1986.

⁸⁶ Letter to PSCU from Steven W Snarr, Managing Attorney for MFSC, in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 19 December 1986.

1 Mountain Fuel will be authorized, upon filing ... additional franchises with
 2 this Commission but without further proceedings or order of this
 3 Commission, to render service to those communities under the terms of this
 4 certificate.⁸⁷

5 On 30 January 1987, the utility informed the Commission that:

6 Enclosed are copies of additional franchises ... for Junction, Parowan, and
 7 Sevier County.⁸⁸ (See Column E on page 1 of RJB Exhibit 2.1.)

8 On 16 December 1987, the Company wrote to say that:

9 Mountain Fuel has recently obtained acceptable franchise authority and
 10 completed a canvas of commercial and industrial customers in the St.
 11 George area.

12 Mountain Fuel believes that the composite consideration of the entire
 13 southern Utah project warrants a decision to move forward rather than stop
 14 at Cedar City.⁸⁹ (See Column F on page 1 of RJB Exhibit 2.1.)

15 And on 29 March 1988, the utility reported that:

16 Enclosed are copies of additional franchises ... for Monroe, Washington
 17 County, St. George, and Hurricane. These are the last of the franchises
 18 required for the expansion of Mountain Fuel's system into Washington
 19 County.⁹⁰ (See Column G on page 1 of RJB Exhibit 2.1.)

20

21 Q Did you form a more detailed opinion with regard to the officials of any of the
 22 particular communities that are now paying or previously paid GGS or EAC rates?

⁸⁷ Report and Order in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 5 January 1987: page 7, last paragraph; and page 24, item 1 under the heading "Order", last sentence.

⁸⁸ Letter to PSCU from Patricia S Drawe, Senior Attorney for MFSC, in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 30 January 1987.

⁸⁹ Letter to PSCU from Gary G Sackett, Division Counsel for MFSC, in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 16 December 1987.

⁹⁰ Letter to PSCU from Patricia S Drawe, Senior Attorney for MFSC, in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity, dated 29 March 1988.

1 A The Company sent copies of its 24 December 1992 request for tariff
 2 modifications to the mayors of Elmo and Cleveland, and the Emery County Board
 3 of Commissioners on 30 December.⁹¹

4 Both the Committee and the Commission referred specifically to Elmo and
 5 Cleveland:

6 The towns of Cleveland/Elmo desire natural gas service to promote the
 7 economic development of their area. These towns have offered to provide
 8 Mountain Fuel the required contribution to obtain 20-year GSS rates.⁹²

9 In its 8 April 1993 Order in Docket 92-057-T01, the Commission recorded that:

10 On January 25, 1993, the Commission suspended the proposed tariff
 11 provisions and scheduled a hearing for February 18, 1993. Mountain Fuel
 12 was required to publish notice of the proceedings and to *invite potentially*
 13 *affected communities* and their residents to attend the hearing or address
 14 the Commission in writing.

15 Mountain Fuel published notice as required and, in addition, *mailed notice*
 16 *to officials of all rural communities* that had previously expressed an
 17 interest in natural gas service. The February 18, 1993, hearing was
 18 *attended by numerous community officials* as well as residents of Silver
 19 Reef. *In addition, the Commission received several letters from other*
 20 *communities* and individuals.

21 In particular, the communities of Elmo and Cleveland in Carbon County
 22 filed informal complaints with the Commission requesting that Mountain
 23 Fuel serve them using the 20-year rate concept.⁹³

24 The Commission also noted that:

⁹¹ Correspondence from Charles E Greenhawt, Managing Attorney for Mountain Fuel Supply Company, dated 30 December 1992.

⁹² Statement of Committee of Consumer Services dated 18 February 1993 in Docket 92-057-T01, the Application of Mountain Fuel Supply Company for Approval of Tariff Modifications Relating to Service in New Service Extension Areas: page 4 under heading "Complaint of Cleveland/Elmo".

⁹³ Order dated 8 April 1993 in Docket 92-057-T0-1, the Application of Mountain Fuel Supply Company for Approval of Tariff Modifications Relating to Service in New Service Extension Areas: page 2, second sentence of first complete paragraph and footnote 2.

1 Similarly, the residents of the Silver Reef community, near the town of
 2 Leeds, also initiated a complaint proceeding questioning Mountain Fuel's
 3 service extension policy as it pertained to their area.⁹⁴

4 And the Commission ordered:

5 Mountain Fuel is further ordered to analyze the feasibility of expansion to
 6 the following communities under the terms of the modified tariff

7	Cleveland	Ogden Valley
8	Elmo	Goshen City
9	Greenville	East Carbon City
10	Silver Reef	Sunnyside
11	Panguitch	Joseph
12	Newton	Emery City
13	Clarkston	

14 The analysis shall be presented directly to each such community.⁹⁵

15 And in its Order in Docket 93-057-01:

16 Emery County has agreed to assist in the up-front contribution required of
 17 \$178,300.⁹⁶

18 Questar's EAC/Ogden Valley Application recorded:

19 For more than a year, Mountain Fuel and representatives from the Ogden
 20 Valley Natural Gas Citizens' Advisory Committee (Citizens' Committee) and
 21 Weber County have worked extensively regarding various economic
 22 options of bringing natural gas to Ogden Valley. During these discussions,
 23 Ogden Valley and Weber County representatives expressed a desire to
 24 extend natural gas service to their area using GS-1 rates and explored
 25 various options with Mountain Fuel for paying the required \$2.3 million up-
 26 front payment.⁹⁷

⁹⁴ "Order" dated 8 April 1993 in Docket 92-057-T01, page 2, third and seventh sentences of first complete paragraph and footnote 3.

⁹⁵ "Order" dated 8 April 1993 in Docket 92-057-T01, page 7, second sentence of the first paragraph and first sentence of the second under the heading "Order".

⁹⁶ "Order" dated 11 June 1993 in Docket 93-057-01, page 2, second sentence of item 3.

⁹⁷ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 2, item 5.

1 Mountain Fuel represented that the Weber County Commission created the
2 Ogden Valley Natural Gas Improvement District at the behest of Ogden Valley
3 residents, through their Citizens' Committee. However, since efforts for the
4 Improvement District to bond for the required amount had failed, the Company
5 was now proposing to fund the extension using an EAC.⁹⁸

6 The New Harmony Application said that:

7 The elected officials and residents of New Harmony desire that Mountain
8 Fuel bring natural gas to their community. Since 1988, when Mountain Fuel
9 first brought natural gas to Washington County, representatives and
10 residents of New Harmony have annually contacted the Company
11 concerning the feasibility of receiving natural gas service ... In 1996, after
12 the EAC had been added to Mountain Fuel's tariff, representatives of New
13 Harmony again approached the Company about providing natural gas
14 service to their community ...

15 Mountain Fuel expects that this matter will be unopposed based on
16 discussions with the Honorable Paul Beatty, Mayor of New Harmony;
17 numerous residents of New Harmony ...⁹⁹

18 MFSC's RCC and Panguitch Application told the Commission that:

19 The Company has discussed with community representatives the feasibility
20 of extending natural gas service to the communities of Panguitch; Elberta
21 and Goshen; and Laketown and Garden City.¹⁰⁰

22 and

23 Panguitch City is willing to work with you in any way possible and are willing
24 to sign a franchise agreement as soon as details are finalized. We like the
25 current plan which is fair to Panguitch City and the rest of the Mountain
26 Fuel customers.

⁹⁸ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 2-4, items 6-10.

⁹⁹ Application of Mountain Fuel Supply Company for Approval of Terms of Gas Service to Customers in New Harmony dated 19 June 1997 in Docket 97-057-12: page 1, item 2, first, second, and fourth sentences; and page 3, item 6.

¹⁰⁰ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04: page 3, item 7, first sentence.

1 The citizens of Panguitch are excited and our city council and other local
2 officials fully support this plan.¹⁰¹

3 In 1998, the Oak City Application said:

4 The elected officials and residents of Oak City desire that QGC bring
5 natural gas to their community. Since 1992, when QGC first brought
6 natural gas to various Millard County communities, representatives and
7 residents of Oak City have repeatedly contacted the Company concerning
8 the feasibility of receiving natural gas service ... In 1997, after the EAC was
9 added to QGC's tariff, representatives of Oak City again approached the
10 Company about providing natural gas to their community ... In February,
11 community leaders were told there was not sufficient sign up. After
12 significant efforts by community leaders to encourage Oak City citizens to
13 sign for natural gas ... the level of sign up increased to 81%.

14 QGC expects that this matter will be unopposed based on discussions with
15 the Mike Anderson, Mayor of Oak City; numerous residents of New
16 Harmony ...¹⁰²

17

18 Q What position has Questar adopted in this Docket regarding the commitment of
19 expansion area customers to GSS and EAC rates?

20 A Questar has essentially denied that any agreements were made by the residents
21 or business owners of the expansion communities but, in response to the
22 Committee's Data Request No 1.01(m), provided copies of service line agreement
23 forms that it admitted were used when surveying Clarkston and Newton, Brian
24 Head, Cedar Fort, Fayette, Joseph and Sevier, Oak City, and Panguitch. These
25 agreements included language such as:

¹⁰¹ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04, Exhibit A: Letter to Carl Galbraith of MFSC from Elaine M Baldwin, Mayor for Panguitch City, dated 5 January 1997, second and third paragraphs.

¹⁰² Application of Questar Gas Verified (sic) Company for Approval of Terms of Gas Service to Customers in Oak City dated 5 May 1998 in Docket 98-057-04: page 2, item 3, first, second, fourth, eighth and ninth sentences; and page 3, item 6.

1 In order to extend its natural gas system, Company requires that
2 approximately 80% of canvassed customers to sign for natural gas
3 service and to pay a Utah Public Service Commission approved
4 Extension Area Charge (EAC) not to exceed \$16.50 per month, in
5 addition to the regular monthly bill for natural gas used. There will be an
6 additional monthly charge for commercial customers of \$1.51 for each
7 decatherm used in excess of 45 decatherms. The required sign up, the
8 agreement to pay the EAC until the present value of the total required
9 contribution is paid, Public Service Commission approval, agreement to
10 pay the commercial charge, if applicable, and execution of a franchise
11 agreement between the town of Clarkston, Newton and Company, shall
12 constitute conditions precedent to Company's obligation to perform.
13 Once Company has determined that the conditions precedent to its
14 performance have been met, Company and Customer agree to be
15 bound by the following terms and conditions:

16 In its response to Committee Data Request 1.01(n), Questar stated that "As per
17 Questar's record retention policy, these agreements have not been retained" and
18 it appears that neither were they enforced. In other words, Questar went to a
19 great deal of trouble to canvass residents using a form that would have given most
20 readers the clear understanding that they were entering into an enforceable
21 agreement for natural gas service at specific rates, but Questar then decided not
22 to enforce the agreements, scrapped the forms, and now says that nobody in the
23 expansion communities entered into any agreements either to take gas service or
24 regarding the prices they would pay if they did.

25

26 Q And what about local government officials in the expansion areas?

27 A There were clearly franchise agreements with most if not all of these communities.
28 The local authorities as well as residents and business owners knew perfectly well
29 what they were getting in to.

1 Not only did Questar demand that the municipalities concerned enter into
2 franchise agreements substantially akin to a model of its own devising, the
3 Company reported progress in obtaining signatures to those agreements to the
4 Commission on numerous occasions.

5 It would be no more proper for the Commission to attempt now to rescue those
6 municipalities from the unwelcome, but entirely foreseeable although not
7 inevitable consequences, of their agreements with Questar than it is to attempt to
8 rescue shareholders from the unwelcome, but entirely foreseeable although not
9 inevitable, consequences of Questar's management's agreement with the
10 counties, cities and towns and their people.

11

12 BALANCE OF INTERESTS

13 Q Have you formed an opinion about the consistency of this Stipulation with previous
14 representations and determinations regarding balance between the interests of
15 the Company, its existing customers and its expansion area customers?

16 A It is my opinion that this Stipulation is entirely inconsistent with previous
17 Commission determinations regarding the balance of interests between those
18 groups, and with many of the representations previously made by the Company,
19 Division and Committee.

20

21 Q Please give some examples from the documents you reviewed that led you to that
22 conclusion.

1 A During the 27 October 1986 hearing in Docket 86-057-03:

2 Mountain Fuel explained that it has not segregated such gas supplies for
3 delivery only to customers who had accounts at the time of the Wexpro
4 settlement. There was testimony that under existing gas market gas
5 conditions the cost benefit enjoyed by current customers would not be
6 diluted by the inclusion of Mountain Fuel-owned gas in general system
7 supplies to serve southern Utah customers. The number of new customers
8 is expected to be approximately the equivalent of a typical one-year
9 increase in customer base on the existing Mountain Fuel system; the
10 additional gas load will be approximately two percent of the company's
11 present load.¹⁰³

12 In other words, the Company intended to supply all these customers at "rolled-in"
13 commodity rates, giving them the benefit of a share of the gas supplied at
14 advantageous prices from Wexpro.

15 For the southwestern Utah expansion off the Kern River pipeline in 1991:

16 The distribution non-gas component of the proposed rates includes a higher
17 margin to reflect the additional cost of new facilities to serve customers in
18 certain expansion areas. The supplier non-gas and commodity
19 components of the proposed rates are identical to rates charged in
20 Mountain Fuel's other Utah service areas and reflect "rolled in" average gas
21 costs.¹⁰⁴

22 Mountain Fuel has contracted for the gas supply required to serve this new
23 area. The gas will be delivered to Mountain Fuel at the various taps in the
24 Kern River line ... The pricing terms of the gas supply are market
25 responsive ... Mountain Fuel proposes that the gas supply costs for the
26 contract be added to all other gas supply costs in determining gas costs for
27 Mountain Fuel's Utah service territory.¹⁰⁵

¹⁰³ Report and Order dated 5 January 1987 in Case 86-057-03, the Application of Mountain Fuel Supply Company for a Certificate of Public Convenience and Necessity: page 9, last paragraph, second sentence et seq.

¹⁰⁴ Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13, page 3: first and second complete sentences.

¹⁰⁵ Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah dated 26 September 1991 in Docket 91-057-13, page 4, item 6 under the heading "Gas Supply": first three and the last sentences.

1 Again, the Company intended to charge these customers “rolled-in” commodity
2 rates, but to supply them with gas bought off the Kern River Pipeline at market
3 prices, a clear and, as it has turned out, increasing subsidy of new by existing
4 customers.

5 In its Order in the southwestern Utah expansion case, the Commission wrote:

6 Projected customer usage at expansion area rates (for twenty years) is
7 projected to earn an average rate of return equal to Mountain Fuel’s
8 authorized level.¹⁰⁶

9 In the event that financial projections are not realized, the impact of cross
10 subsidization of rates by other customers would be minimal because the
11 size of the project is small relative to the size of Mountain Fuel’s system.¹⁰⁷

12 However, there is no evidence to suggest that anybody at any stage has required
13 the utility to account for the subsidies crossing between older and newer
14 customers.

15 In a Statement filed on 18 February 1993, the day of the hearing on the GSS
16 case, the Committee told the Commission that it:

17 believes service extension rates should be made available when:

18 3 The provision of the service will not have an extraordinary
19 adverse financial impact on the Company or its ratepayers¹⁰⁸

20

¹⁰⁶ Order dated 8 November 1991 in Docket 91-057-13, the Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah, page 3, item 6.

¹⁰⁷ Order dated 8 November 1991 in Docket 91-057-13, the Application of Mountain Fuel Supply Company for Approval of Rates for Southwestern Utah, page 3, item 7.

¹⁰⁸ Statement of Committee of Consumer Services dated 18 February 1993 in Docket 92-057-T01, Application of Mountain Fuel Supply Company for Approval of Tariff Modifications Relating to Service in New Service Extension Areas; page 1 under heading “Policy Implications of Tariff Modifications”.

1 Q Did you find evidence that the Commission had addressed concerns about
2 multiple varying rates for customers in different expansion areas?

3 A Yes. In its 18 February 1993 hearing in Docket 92-057-T01, Alan Allred, then
4 Mountain Fuel's Director of Rates:

5 explained that the Company was concerned about some customers paying
6 higher rates than neighboring areas (sometimes referred to as "rate
7 islands"). Mr Allred further explained that for this reason the Company had
8 been reluctant to increase the use of double margin rates in areas like Elmo
9 and Cleveland, which were not as geographically separated from the
10 Company's existing service territory as other expansion areas had been.¹⁰⁹

11 In its 8 April 1993 Order granting Mountain Fuel's Application in Docket 92-057-
12 T01, the Commission recorded that:

13 Mountain Fuel's Application states that the Company "offers modifications
14 to Mountain Fuel's tariff designed to balance the concerns of the Company
15 and its existing customers with the desire of prospective customers in
16 outlying areas to receive natural gas service"

17 The Division reviewed Mountain Fuel's Application and recommended
18 approval, stating the proposed changes would not cause upward pressure
19 on rates for other customers.¹¹⁰

20 The tariff fairly balances the interests of Mountain Fuel, its existing
21 customers and potential customers in new and existing expansion areas.¹¹¹

22

23 Q What information did you find to inform the issue of more recent rural customers
24 providing subsidies to longer standing customers?

25 A MFSC's Elmo and Cleveland Application in 1993 claimed that:

¹⁰⁹ "Order" dated 8 April 1993 in Docket 92-057-T01, page 4, second and third sentences of third paragraph.

¹¹⁰ Order dated 8 April 1993 in Docket 92-057-T01, Application of Mountain Fuel Supply Company for Approval of Tariff Modifications Relating to Service in New Service Extension Areas; Page 3, first and second paragraphs.

¹¹¹ "Order" dated 8 April 1993 in Docket 92-057-T01, page 6, item 2 under the heading "Findings of Fact".

1 The supplier non-gas and commodity components of the proposed rates
2 are identical to rates charged to Mountain Fuel's other Utah service areas
3 and reflect "rolled in" average gas costs.¹¹²

4 In its EAC/Ogden Valley Application, the utility said:

5 This proposal will recover the present value of the required non-refundable
6 payment from customers in the extension area in a manner than (sic)
7 makes service to that area economically feasible and protects the interests
8 of existing customers.¹¹³

9 It appears that the vaunted subsidy of new customers by old did not significantly
10 differ in its benefit to new customers in extension areas and those in existing
11 service areas until the Panguitch case was approved in the wake of HB180, which
12 specifically required the Commission to approve explicit subsidies for extension
13 area customers.

14 Its RCC and Panguitch Application signaled that Mountain Fuel would soon be
15 asking the Commission to add some \$1.6 million to its ratebase, increasing its GS-
16 1 rates so that all its customers would be explicitly subsidising its new Panguitch
17 customers.¹¹⁴

¹¹² Application of Mountain Fuel Supply Company for Approval of Rates for Elmo and Cleveland Towns dated 4 June 1993 in Docket 93-057-03, page 2, item 4 under the heading "Rate Proposal": fourth sentence.

¹¹³ Verified Application of Mountain Fuel Supply Company for Approval of Its New Provisions Establishing an Extension Area Charge and for Approval of a Specific Extension Area Charge for Ogden Valley dated 24 June 1996 in Docket 96-057-07: page 5, item 12, last sentence.

¹¹⁴ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04: Exhibit F, line 3.

1 Mountain Fuel estimated the annual impact on a “typical”, or 115 Dth, residential
2 customer’s bill as 32.2 cents, which it subsequently frequently referred to as “the
3 cost of a first class postage stamp”.¹¹⁵

4 In an 11 March 1997 Memorandum to the Commission, the Division wrote:

5 The proposal contains a significant increase in the level to which customers
6 in new expansion areas would be subsidized by existing customers.

7 The Division ... has reviewed the application and has concluded that we
8 cannot support the approach that has been proposed by MFS.

9 The proposal is a major policy change by MFS. Generally speaking, in the
10 past new customers have been subsidized by old customers. Over time
11 new customers have become old customers who help subsidize new
12 customers ... Our understanding is that basically the level of subsidy
13 remained the same and that extending service to the areas was made
14 feasible by higher rates, spreading the up front costs over time, etc. This
15 proposal is a major policy change in that there is a significant additional
16 subsidy by existing customers that is specifically identified.

17 The proposal has a potential price discrimination issue. Potential
18 communities that are candidates for getting service are divided into two
19 groups. The first group contains those areas that MFS would determine are
20 economically feasible using one of the existing methods discussed above.
21 The other group would be those communities that are not economically
22 feasible to serve using any of the existing methods. This second group
23 would get an additional subsidy that those in the other group would not.
24 The first group could easily argue that they should get the same level of
25 subsidy in the form of a lower up front charge or lower rates.

26 The DPU generally, is not concerned with natural gas competing with
27 propane dealers, electric utilities, and other energy providers. If it is the
28 cheapest fuel it should have the advantage. However, if it is the cheaper
29 fuel because it is being subsidized by other customers the vendors of
30 competing energies may have legitimate concerns.

31 The impact of \$0.32 per year for fifteen years on the typical customer
32 doesn’t seem like much but if there are a lot of similarly situated
33 communities the impact could become very significant over time.

34 The DPU is aware of the impact that not having natural gas can have on
35 the economic development and growth of rural areas. We also like to see

¹¹⁵ Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 21 February 1997 in Docket 97-057-04: Exhibit F, line 12.

1 more citizens have the advantage of lower energy bills. However, we
 2 cannot support accomplishing this by raising the rates of existing
 3 customers.¹¹⁶

4 On 23 April 1997, Commissioner Clark D Jones wrote on behalf of the
 5 Commission to Alan Allred, MFSC's Director of Rates:

6 Our concern with the Panguitch proposal continues to be its dependence
 7 on an explicit subsidy ... By subsidy, we are not referring to the
 8 characteristic cost difference between existing and new customers and the
 9 balance always struck between them¹¹⁷

10 In his 28 April 1997 reply, Mr Allred did not advance the argument currently being
 11 advanced that new customers subsidise existing ones. Rather he said:

12 Mountain Fuel would not have been able to expand its system into areas
 13 such as Park City, Logan and Cedar City just to name a few examples, if
 14 the Commission had not allowed the Company to share the costs of
 15 expansion with its existing customers. Such cost sharing has been
 16 practiced in virtually all extensions of utility service to new areas.¹¹⁸

17

18 Q What conclusions did the Commission reach in the RCC Case?

19 A The Commission denied Mountain Fuel's Application in a 9 May 1997 Order,
 20 saying:

¹¹⁶ Memorandum to the Commission from Ric Campbell, Lowell Alt and Darrel S Hanson for the Division of Public Utilities, in Case 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 11 March 1997.

¹¹⁷ Letter to Alan Allred from Clark D Jones, Commissioner for PSCU, in Case 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 23 April 1997.

¹¹⁸ Letter to Clark D Jones from Alan Allred, Director of Rates for MFSC, in Case 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 28 April 1997.

1 As a public utility, MFS provides natural gas utility service to customers at
 2 rates, terms and conditions subject to the Commission's supervision or
 3 regulatory authority conferred by Title 54 of the Utah Code. MFS's tariff
 4 provisions are to be 'just and reasonable' pursuant to that same title and
 5 specifically UCA §54-3-1. That section defines 'just and reasonable' to
 6 "include, but shall not be limited to, the cost of providing service to each
 7 category of customer, economic impact of charges on each category of
 8 customer, and on the well-being of the state of Utah ..." In providing
 9 service, MFS is prohibited, by UCA §54-3-8, from granting any preference
 10 or advantage to any person or having unreasonable differences between
 11 localities or classes of service.¹¹⁹

12 MFS management uses its experience and judgment to determine that the
 13 anticipated revenues to be received from services MFS proposes to provide
 14 will cover the costs associated with providing those services, including a
 15 reasonable return on the stockholders' investment in the plant/facilities
 16 needed to provide those services. MFS's management plans the services it
 17 will provide, the areas in which it will serve and proposed prices, terms and
 18 conditions. Pursuant to Title 54 of the Utah Code, the Commission is
 19 required to review those decisions and proposals to insure that they are just
 20 and reasonable and otherwise in compliance with Utah law. The
 21 Commission must determine that the interest of customers in adequate
 22 service at just and reasonable rates and terms is balanced with the utility's
 23 interest in an opportunity to earn a reasonable return.¹²⁰

24 While the current tariffs attempt to follow a regulatory policy of having
 25 service costs recovered from the customers which cause those costs, the
 26 RCC proposal is a significant deviation. Existing tariffs require customers
 27 to make non-refundable contributions to aid in the recovery of expansion
 28 costs. The RCC proposal is explicitly designed to not do so. From
 29 information provided by the parties, a customer having service extended
 30 under tariff §3.45 and 3.50 would receive main line and service line footage
 31 allowances and a meter valued at \$791 and would pay in rates and fees
 32 \$721, a "subsidy" of \$70. By contrast, the value or costs of the Panguitch
 33 expansion are \$3,431,000. The 460 Panguitch customers would pay in
 34 rates and fees \$1,520,420, a "subsidy" of \$4,153 per customer ... This

¹¹⁹ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 9 May 1997, page 2, first complete paragraph: second through fourth sentences.

¹²⁰ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 9 May 1997, page 3, first complete paragraph: second through fourth sentences.

1 raises a concern that customers in areas served through other extension
 2 tariffs would be discriminatorily treated, in violation of UCA §54-3-8,
 3 compared to customers served through the proposed RCC provisions.¹²¹

4 ... we do not control the conduct of the utility. The utility decides and does
 5 innumerable things which impact its operations and financial well being.
 6 Our responsibility is to have the utility owners, not ratepayers, take the risks
 7 and the rewards that result from the economic forces operating in the
 8 marketplace.¹²²

9 MFS has determined that the extension of its system to Panguitch is not an
 10 economic decision that would survive the realities of the marketplace.
 11 MFS's RCC proposal is specifically designed to counter the operations of
 12 the marketplace and interject a service that normal market mechanisms do
 13 not support. MFS uses an example of Panguitch customers accessing
 14 MFS service is other firm sales ratepayers each contributed only 32 cents a
 15 year. The DPU observes that the same result would occur if MFS equity
 16 owners received only a 4 cent per share reduction in return or dividend.¹²³

17 However characterized, no party disagrees with the conclusion that MFS
 18 natural gas service to Panguitch is not supported by the prices that
 19 Panguitch customers are able to pay for the MFS services they will receive.
 20 It can only occur if some source of support, contribution, or subsidy is
 21 applied to reduce the Panguitch prices below their economic costs. It is not
 22 appropriate for the Commission to sanction a subsidy of the magnitude
 23 contemplated in the Panguitch RCC proposal that favors MFS's service
 24 over other, competing service providers.¹²⁴

¹²¹ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 9 May 1997, page 8, last paragraph: second through fourth sentences.

¹²² Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 9 May 1997, page 11, first complete paragraph: fourth through sixth sentences.

¹²³ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 9 May 1997, page 11, last paragraph, continuing to page 12: first through fourth sentences.

¹²⁴ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural Community Charge for Panguitch, Utah, dated 9 May 1997, page 12, first incomplete paragraph: antepenultimate through last sentences.

1 MFS would have the Commission disregard the economic facts and have
 2 the extension supported by other customers. It does so upon broad
 3 general interest arguments, but does not articulate any net benefit to these
 4 other customers ... We have attempted to discover some means of finding
 5 the proposal consistent with the need to have a reasonable balance
 6 between shareholders, existing customers and new customers as
 7 expressed in existing statutory provisions. The record in this case,
 8 however, does not establish a demonstrable benefit to MFS's other
 9 customers sufficient for them to shoulder an additional \$1.6 to \$1.9 million
 10 of costs by which MFS will subsidize prices to compete with other market
 11 participants.¹²⁵

12 We further conclude that use of the RCC mechanism would be
 13 impermissibly discriminatory. MFS proposes to restrict the use of RCCs for
 14 those areas where customers are unable to pay the non-refundable
 15 customer contribution through lump sum, deferred payment, higher
 16 commodity rates, EAC or some combination. MFS was clear that it intends
 17 to obtain from new customers the highest contribution level possible
 18 through the existing extension tariffs before it offers an RCC option.
 19 Approved extension policies (sic) have treated all customers similarly
 20 situated on an equal basis. That is, customers have been required to pay
 21 the calculated non-refundable customer contribution where the costs to
 22 connect them to the MFS system have exceeded that contained in the
 23 allowance footage.¹²⁶

24

25 Q Overall, what conclusions do you draw with regard to the balance of interests
 26 between the utility, its existing customers and its newer customers?

27 A Nobody has asked the Commission to adopt a universal service policy or pricing
 28 structure for natural gas in Utah, either in this Docket or previously, and the
 29 Stipulation provision regarding future expansion schemes clearly runs contrary to
 30 any such notion.

¹²⁵ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New
 Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural
 Community Charge for Panguitch, Utah, dated 9 May 1997, page 12, last paragraph, continuing to page
 13: first, second, sixth and seventh sentences;

¹²⁶ Order in Docket 97-057-04, the Application of Mountain Fuel Supply Company for Approval of Its New
 Tariff Provisions Establishing Service to Rural Communities and for Approval of a Specific Rural
 Community Charge for Panguitch, Utah, dated 9 May 1997, page 13, only complete paragraph.

1 CERTIFICATE OF SERVICE
2

3 I hereby certify that a true and correct copy of the foregoing RJB Exhibit 2.0, Stipulation Supplementary
4 Testimony of Roger J Ball, and the accompanying RJB Exhibit 2.1 in Docket 06-057-T04 were served
5 upon the following by electronic mail on 24 January 2007:
6

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Removal of Questar's GSS and EAC Rates

Docket No 06-057-T04

Roger J Ball

STIPULATION SUPPLEMENTARY TESTIMONY

23 March 2007

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/s/

Roger J Ball