

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION TO REMOVE GSS AND EAC RATES FROM QUESTAR GAS COMPANY'S TARIFF	Docket No. 06-057-T04
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PREFILED TESTIMONY OF

Robert G. Adams

FOR

Beaver County Economic Development Corporation (BCEDC)

January 15, 2007

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert G. Adams. My business address is 105 East Center Street or P.O. Box 2211, Beaver, UT 84713.

Q. Who is your employer and what is your position?

A. I am the director of the Beaver County Economic Development Corporation. I also serve on the Governor’s Rural Partnership Board. This is a board created by the legislature charged with the responsibility of advising the governor on rural issues.

Q. What is the Beaver County Economic Development Corporation (BCEDC)?

A. It is a 501 c.3 corporation formed to promote economic development in Beaver County and its three incorporated communities. The corporation is funded through an inter-local agreement among Beaver County, Beaver City, Milford City and Minersville Town. The corporation is governed by a board with representatives from all entities party to the inter-local agreement. When it comes to for most economic development issues, the BCEDC represents all its member entities.

Q. How long have you functioned in that role?

A. Since July 1, 2003.

Q. How long have you lived in Beaver County?

A. I moved my family here in November of 1994, several years after natural gas service was extended to the county.

Q. Why are you providing sworn testimony in this proceeding?

A. I am charged with the responsibility of attracting business and investment to our county and its communities for the purpose creating jobs, expanding assessed valuation and increasing the level of economic activity with the ultimate purpose of improving the prosperity of the county, its communities and residents. The absence of competitive utility

26 rates makes it near impossible for rural communities to be successful in economic
27 development efforts. No business or industry will locate a business in an area with utility
28 rates higher than nearby communities. Late in 2004, the community of Beaver saw this
29 first hand when a paper recycling company passed us over partly because our natural gas
30 rates were too high. This incident prompted an investigation into reasons for the
31 differences in rates. When it became evident that the reason for the difference in rates was
32 due to the existence of the GSS tariff in our area, a letter was sent by our county
33 commission in March of 2005 to the Public Service Commission requesting relief.

34 My testimony is being provided on behalf of the Beaver County Economic Development
35 Corporation to seek the elimination of the GSS rates from our tariff and a subsequent
36 replacement with the GS1 tariff.

37 **Q. Why did BCEDC intervene in this case?**

38 A. Beaver County is negatively affected by the existence of the GSS tariff in every
39 community within our boundaries. BCEDC is the logical voice of its member entities on
40 economic development issues.

41 **Q. What would you consider a successful outcome of this case?**

42 A. The removal of both the GSS and EAC rates from Questar Gas Company tariffs. This
43 would create a level playing field for all communities in efforts to attract new industry.

44 **II. BACKGROUND**

45 **Q. Please review for us the incident involving the paper recycling company with**
46 **specifics regarding the effect of paying the GSS rate?**

47 A. This case involved a company that produces tissue paper from used office paper. The
48 company first came to visit Beaver in the early fall of 2004. The manufacturing process
49 involves the removal of all impurities from office paper including clay, ink glue, staples,
50 etc. This removal is accomplished by washing the paper with water until nothing remains

51 but the actual fiber. When the impurities are removed, the remaining fiber is converted to
52 tissue and dried, the finished product are large rolls of tissue paper weighing
53 approximately one ton. Natural gas is the energy source for drying the cleaned fiber. A
54 plant of the size contemplated uses 23,000 decatherms of natural gas monthly.
55 Furthermore, gas consumption is virtually constant as the plant is a 24/7/365 operation.
56 Consumption is nearly constant day by day, making for an ideal natural gas customer. The
57 difference between the F-1 and the GSS rate represents averages approximately \$4 per
58 decatherm. This forces additional operating expenses \$1.1 million annually. It is no
59 wonder the company chose not to locate in Beaver. The current natural gas tariff makes it
60 impossible to attract a natural gas user of that size.

61 **Q. You are not the only economic development professional with keen interest in this**
62 **issue; can you tell us about others in your same position with concerns about these**
63 **tariffs?**

64 A. In August of 2005 I met informally with DeLynn Fielding of Carbon County and Mike
65 McCandless of Emery County at the Rural Summit held each year in August in Cedar
66 City. The result of that discussion was that economic development efforts in rural areas
67 are definitely impeded when differences in rates exist among neighboring communities.
68 From this discussion, an informal group was formed. The results of this group are
69 reported adequately in Mr. McCandless' testimony and need not be repeated here.

70 **III. EFFORTS TO RESOLVE THE ISSUE**

71 **Q. Please give your understanding of the timeline of events that led up to this case,**
72 **Docket 06-057-T04?**

73 A. As mentioned above the Beaver County Commission wrote a letter to the Public Service
74 Commission asking for relief from these unfair rates in March 2005. Copies of the same
75 letter went to Questar officials. As a result of the letter, I received calls from a two
76 individuals at the PSC requesting further details about our experience. Calls were also
77 received calls from Barry McKay of Questar. These discussions led to a technical

78 conference held early in December of 2005. The purpose of this conference was to discuss
79 the effect of GSS and EAC rates on the communities currently under those tariffs along
80 with potential solutions. From that conference the PSC stipulated a task force in Docket
81 05-057-T01 and gave that task force a 90 day time period to discuss the issue and make a
82 recommendation to the PSC regarding GSS and EAC rates. The task force was also
83 charged with the responsibility of studying the issue of financing for new communities
84 desiring natural gas service. Participating in the task force were several representatives
85 from Questar Gas, the Committee for Consumer Services, the Division of Public Utilities,
86 the Public Service Commission and representatives from Beaver, Carbon and Emery
87 County economic development organizations. I was the representative from Beaver
88 County. The task force began meetings on June 13, 2006 and the last on August 17,
89 2006.

90 **IV. TASK FORCE DOCKET 05-057-T01**

91 **Q. What took place in the task force meetings?**

- 92 1) A review of the history of the GSS and EAC rates over the past 20 years.
- 93 2) Several discussions regarding the purpose, administration and fairness over time of those
94 rates.
- 95 3) Discussions regarding the future financing of expansion of service to new communities
96 and how the ultimate decision of the task force might affect those decisions.

97 **Q. What was the recommendation of the task force and was it a consensus?**

98 A. The recommendation of the task force was to eliminate both the EAC and the GSS rates
99 from the Questar Gas Company tariffs. This recommendation included the removal of all
100 GSS, IS4 and ITS rates from Questar tariffs. In addition, the recommendation was to
101 remove the EAC or extension area charges. Regarding future natural gas expansions, the
102 recommendation was made to seek other sources of funding to cover the costs of bringing
103 gas lines close enough to the cities to distribute gas. The use of the existing Industrial

104 Assistance Fund was one example of such funding. The recommendation did not
105 represent a consensus of the group but it did reflect the opinion of the majority.

106 **Q. You mentioned above that the task force did not reach a consensus, why?**

107 A. Following three meetings where representatives of the Committee for Consumer Services
108 confirmed they were not going to have a position on the issue, they opposed the final
109 recommendations of the majority of the task force in the final meeting. The late date of
110 this opposition left no time in the 90 window for the task force to seek a solution. During
111 that meeting, the group worked at achieving consensus but soon realized it would not
112 happen and left it to the Committee to file a separate opinion. Opposition by CCS brings
113 us to the current Docket for resolution. See the testimony of Mike McCandless for more
114 details on the response of the Committee.

115 **V. SUBSIDIZATION OF RATES FROM EXISTING RATEPAYERS**

116 **Q. Much was said in the task force report of subsidization of the broad rate base to**
117 **assist newly or recently served communities in receiving gas service. In your opinion**
118 **is this fair? And why?**

119 A. Yes. Subsidization in one form or another occurs every day in our society. This is
120 particularly true with utilities. In a March 1997 memo from Ric Campbell, the Director of
121 the DPU to the Commission stated “Generally speaking, in the past new customers have
122 been subsidized by old customers. Over time new customers have become old customers
123 who help subsidize new customers.” Mr. Campbell concludes this memo by saying “The
124 DPU is aware of the impact that not having natural gas can have on the economic
125 development and growth of rural areas. We also like to see more citizens have the
126 advantage of lower energy bills.” In nearly all cases, new areas served are subsidized in
127 one form or other by existing customers.

128 As a matter of fact, subsidies exist even among the communities receiving service through
129 the GSS rates. As the actual cost of service to each community varies depending on their

130 physical location with respect to the Kern River Gas pipeline, those closest to the line are
131 subsidizing those furthest away as there is only one GSS rate for all.

132 In the end, we are all better served if similar classes of service from all utilities are
133 provided statewide. This subsidization occurs in other aspects of our society also. In the
134 1980s when severe spring floods left basic infrastructure along the Wasatch Front in
135 disrepair, a statewide increase in sales tax was instituted to pay for it. Billions are spent on
136 upgrading I-15 along the Wasatch Front and are paid for by all state residents. Though
137 these are not examples from utilities the concept is the same.

138 **Q. In what ways are ratepayers in communities that will see a small increase in their**
139 **rates well served by a decision to remove GSS and EAC rates?**

140 A. Every community in the state has its own set of challenges. Along the Wasatch Front,
141 overcrowding on the road systems waste thousands of hours each day and contribute to
142 unhealthy air quality. Pushing industrial development off the Wasatch Front will help
143 alleviate the continued crowding and the problems that come with it. Given the size of the
144 population on the Wasatch Front, the availability of all infrastructure needs at competitive
145 prices, most relocating industries will prefer to locate there. As companies continue to
146 locate in crowded areas the problem is self perpetuating. Crowding along the Wasatch
147 Front would be alleviated if rural communities were allowed to be more competitive in
148 their efforts to those same businesses currently choosing Salt Lake, Davis, Weber or Utah
149 Counties. The rural communities can best be made competitive in gas rates through the
150 removal of GSS rates and EAC charges.

151 **Q. Is there precedent for forcing the broad rate base to subsidize newcomers to the**
152 **system? Please give examples.**

153 A. Yes, in the early days of the natural gas utility in this state, when gas service was expanded
154 from Salt Lake City to North Salt Lake and Davis County. At the time, the Salt Lake
155 customers were opposed to assisting their neighbors to the north but they did and the result
156 is two healthy counties. In time new ratepayers become the old ratepayers and will

157 inevitably have the opportunity to assist other new communities in their quest for a better
158 life through more economical energy sources. One example cited in the task force
159 meetings was that of the acquisition of the Utah Gas Services Company. Utah Gas served
160 parts of eastern Utah including the Uintah Basin. When Utah Gas was acquired,
161 ratepayers continued to pay the higher rates associated with the old company but only until
162 the next rate case when the excessive rates were rolled into the entire rate base and those
163 previous Utah Gas customers were placed on the GS1 rate. That rate case came within
164 two years of the acquisition. If it is unfair to the GS1 ratepayers to roll in the current GSS
165 and EAC rates after paying on them for 12 to 13 years, then it was several times more
166 unfair to allow the excess acquisition costs of Utah Gas to be rolled in to GS1 after less
167 than two years.

168 **Q. Your position in this case seems to argue on behalf of lower income consumers in**
169 **your area, did you approach the Committee for Consumer Services about**
170 **representing you? And what was their response?**

171 A. Yes, I called and left a voice mail to Paul Proctor, the attorney representing the Committee
172 in December of 2006 as I was preparing thoughts for this testimony. In that voice mail
173 message, I stated my purpose and made a case for how I felt this was a case the Committee
174 should assist us in as it would provide relief for residents of lower and fixed income as
175 well as smaller businesses in rural areas. I asked Mr. Proctor to get back with me with
176 answer to whether or not we could count on Committee support. I received a call from
177 Mr. Proctor on January 2, 2007. He told me that the Committee did not represent us in the
178 case and further that they were charged with advocating for the majority. I remember
179 thinking that was strange comment coming from an attorney in a state supported advocacy
180 role. I thought “since when was advocacy ever about protecting the majority”.

181 Following Mr. Proctor’s affirmation that he did not represent us, I told him at that point I
182 was not comfortable talking to him. He asked why and I said that it was obvious to me
183 that he was opposing our position in the case and that talking to him did nothing to
184 strengthen our case. We continue to visit for a few minutes wherein I brought up a certain

185 amount of displeasure regarding the Committee's stance in the task force proceedings
186 specifically, their waiting until the final meeting to voice substantive opposition to the
187 proposals being made as it was evident from the first meeting the direction preferred by of
188 the majority of the task force. When I brought up the task force he stopped me and said
189 "what task force are you talking about?" I thought this was really strange that he appeared
190 uninformed of a task force in which members of his staff and Committee participated.

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VI. SUMMARY

193 **Q. Can you summarize your testimony?**

194 A. Current GSS and EAC rates discriminate against communities in which those rates apply.
195 There are ample examples of such discrimination. The very nature of utilities creates a
196 situation where the ratepayers in those areas first served by utilities subsidize those joining
197 the system later.

198 If GSS and EAC rates are not dealt with soon in this time of rapid business expansion in
199 the state the wealthy, prosperous communities will continue to grow more wealthy and
200 prosperous and those struggling in their economic development efforts will continue to
201 stagnate. The rich get richer and the poor get poorer. Competitive rates are a prerequisite
202 to success. Equalization of rates provides benefits to all ratepayers in the state regardless.

203 The Beaver County Economic Development Corp. urges the commission to act favorably
204 on this request to remove the GSS and EAC rates from their tariffs.

205 **Q. Does this conclude your testimony?**

206 A. Yes, thank you.

State of Utah)
 : ss.
County of Beaver)

I, Robert G. Adams, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

Robert G. Adams

SUBSCRIBED AND SWORN TO this ____ day of _____, 2007.

Notary Public