

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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DIRECT TESTIMONY OF
MICHAEL B. McCANDLESS
FOR
EMERY COUNTY

January 10, 2007

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2

I. INTRODUCTION

3 **Q. Please state your name and business address.**

4 A. My name is Michael B. McCandless. My business address is 75 East Main St., P.O. Box
5 297, Castle Dale, Utah 84513.

6 **Q. By whom are you employed and what is your position?**

7 A. I am the Economic Development Director and Planner for Emery County. I also serve as
8 an advisor on utility issues for both the Governor's Rural Partnership Board and the
9 Governor's Office of Economic Development.

10 **Q. What is the purpose of your testimony in this proceeding?**

11 A. The purpose of my testimony is to provide background on the events that lead to the filing
12 of this tariff, to explain the negative impacts of the current Tariff on our community and to
13 address potential concerns about the underlying "fairness" of this proposal

14 **Q. Why did the County intervene in the filing?**

15 A. The current Tariff has proven to be a significant impediment to economic development on
16 our community and has had the "unintended consequence" of pitting local communities
17 against each other. In our county, only the communities of Cleveland and Elmo are
18 currently subject to the GSS. The surrounding communities in the county such as
19 Huntington, Castle Dale and Orangeville received Natural Gas service decades ago and
20 therefore are under the GS-1 Tariff. We have had a number of circumstances, particularly
21 recently, where companies that were investigating expansion or relocation looked at our
22 communities and immediately rejected Cleveland because of the costs associated with the
23 Tariff. Furthermore, residential customers in Cleveland have struggled to afford the
24 increased costs of the service in the community. Cleveland and Elmo are older bedroom
25 communities with a very high concentration of retired and fixed income residents.

26

27 **Q. Are you involved in the filing in any other capacity other than a county economic
28 development professional?**

29 A. Yes. I was asked by former Lieutenant Governor Gayle Mckeachie, who serves as the
30 head of the Rural Office in the Governor's Office of Economic Development to represent
31 the interests of rural communities in the process. When the GSS / EAC task force was
32 created, I was asked to participate and represent the interests of the Governor's Rural
33 Partnership Board and the Governor's Office of Economic Development.

34

35 **Q. What are the key items the Application resolves?**

36 A. The Application, if approved, will address the removal of expansion area rates GSS, (IS-4
37 and ITS) EAC and related charges) that have become an economic development
38 impediment to other communities in Southern and Central Utah.

39 Furthermore, the Application will assist in the long-term goal of resolving what to do
40 about communities that do not currently have Natural Gas service. As a participant in the
41 GSS/EAC Task Force, we were tasked with answering two key questions. First was to
42 provide a recommendation on the GSS and EAC rates. Secondly, we were tasked with
43 developing long-term recommendations on providing Natural Gas service to communities
44 that currently do not have the service. It became evident very early in the discussions that
45 we, as a State, would not be able to adequately address the future Natural Gas
46 communities until we had a clear resolution or break from the current situation. This is
47 because Utah essentially had three "classes" of communities; GSS communities, EAC
48 communities and GS1 communities. Any discussion about new communities had to be
49 preceded by a discussion about which of these classes should the new community fall into.
50 Removal of the GSS and EAC rates places all communities on "level ground" and would
51 not prejudice the process in a way that would harm future communities from getting the
52 service.

53 It was universally recognized in the Task Force that the GSS and EAC programs had not
54 worked as well as hoped and that Questar would not want to use this mechanism in the
55 future. However, as long as these Tariffs are still part of the Questar General Tariff,
56 additional communities could make the argument to "force" the Commission and Questar
57 to continue to use the programs as a matter of fairness. While the task force was unable to

58 develop a specific set of recommendations for Natural Gas expansion into new
59 communities, one theme was clear. A funding approach that included a wide assortment
60 of funding options would be required and that relying on Tariffs like the GSS and EAC
61 were not the way to proceed.

62 The final item that this application addresses is the financial inequity in the amounts that
63 rural customers in the affected communities are paying for Natural Gas service. This is a
64 particular concern for the fixed income individuals which represent a disproportionate
65 percentage of the affected communities in Emery County.

66 **Q. Is there precedent for proposed action in the Application?**

67 A. Yes. The concept of spreading the costs associated with expansion across the state or
68 multiple customer groups is a core tenant of utility regulation. New customers in all areas
69 are asked to pay a connection charge, however this cost is, at best, a break even and in
70 most cases this cost reflects only a percentage of the actual cost and impacts to the system.
71 As new customers in fast growing parts of the state are added, the rates paid by existing
72 customers are subsidizing these new customers' costs and the impacts they have on the
73 statewide system.

74 While Utah does not have a recognized policy of Natural Gas "Universal Service", the
75 core principles of this philosophy have been followed for decades. As new communities
76 are added to the system, the established customers are the ones that "pay the bills" and
77 ensure the utility is reaching the authorized rate of return.

78 Furthermore, in the Utah Gas Services Company (UGS) acquisition and subsequent report
79 and order, DOCKET NO. 01-057-03, the Commission stipulated that the existing rate
80 structure in place at the time of the acquisition be "used for an interim period terminating
81 on the earlier of 1) when Questar's non-gas rates are adjusted in a general rate case or 2)
82 six years from the closing of the purchase and sale of Utah Gas Service's Operations. At
83 that time, Utah Gas Service's customers will be incorporated into the existing rate structure
84 of Questar Gas Company." While the rates were anticipated to be in place for up to six
85 years, the next general rate case was completed approximately two years from this time

86 and the UGS tariffed rates were eliminated and the associated costs were included in the
87 rate case for the entire state.

88 **II. BACKGROUND**

89 **Q. At what point did the rural economic development professionals become aware and**
90 **involved in the process?**

91 A. In a broad sense the issue has been a concern in our communities since the GSS and EAC
92 tariffs were enacted, however specific involvement by our office and associated economic
93 development professionals (EDP's) began in August of 2005 at Senator Robert Bennett's
94 Rural Conference held in Cedar City. At this conference a group of EDP's discussed
95 specific recruitment efforts that have been thwarted as a result of utility rates and
96 regulation. Specifically, a project in Beaver County was discussed because of the direct
97 effect the GSS rate had on the recruitment efforts. This discussion highlighted other
98 situations in many of the GSS / EAC communities where the disparity in rates created
99 economic development challenges.

100 In our communities, this disparity was highlighted as we attempted to attract a new
101 sawmill to the county. While the operator had agreed to focus his search efforts in Emery
102 County, the specific location of the mill was undecided. As we began the search for
103 appropriate properties, we located several tracts in an around the town of Cleveland.
104 However, as we began moving forward with the research, it became clear that the operator
105 was not comfortable with the Natural Gas rate structure and we were asked to look at
106 properties outside of the town. It was estimated that his costs in Cleveland for his project
107 would run between 35% and 50% more than if he were to locate in any of the other
108 communities.

109 As a result of the initial meeting in Cedar City, a follow up meeting was held in Price,
110 Utah in September 2005. Seven EDP's participated in this initial meeting; Delynn
111 Fielding, Carbon County; Bill Johnson, Uintah County; Irene Hansen, Duchesne County;
112 Rob Adams, Beaver County; Michael McCandless, Emery County; Nick Tatton, Price
113 City; and Malcolm Nash, Sevier County. At this meeting Rob Adams agreed to initiate

114 discussions with Questar regarding the GSS / EAC issue. Other assignments were given
115 to other members relating to concerns with other utilities.

116 **III. GSS / EAC TASK FORCE**

117 **Q. What was the outcome of the initial discussions between rural economic development**
118 **professionals, Questar and regulators?**

119 A. The conversations Mr. Adams had with Questar (Specifically with Barry McKay) initiated
120 discussions that ultimately led to the technical conference held on December 6, 2005. The
121 Commission sponsored this conference for all interested parties to address this issue. It
122 was in consideration of these discussions that the Company and Division agreed to
123 propose that the expansion area rates (GSS, IS-2, IS-3, IS-4 and IT-S) be eliminated at that
124 time. The Commission ultimately decided to issue a stipulation that the Division appoint a
125 task force to further discuss the best course of action in regard to the existing EACs and to
126 recommend tariff language to address future requests by communities for expansion of the
127 system. The task force began meeting on June 13 and issued a final report to the
128 Commission on August 24, 2006.

129 **Q. What was the outcome of the Task Force?**

130 A. The task force held four meetings during the 90-day window that was allotted. It was the
131 feeling of the majority of the group that the proposal to eliminate the GSS and EAC rates
132 was the recommended course of action and that should be reflected in the final document.
133 This plan, however, ultimately was only partially completed because the Committee
134 elected at the last minute to oppose the recommendation. Up until the final meeting of the
135 task force, the Committee had communicated to the group that they would take “No
136 Position” on the recommendation. At the final meeting, the committee made it clear that it
137 was unable to support the recommendation and therefore the report from the task force
138 was amended to reflect this change. The late date for the Committee to voice its concerns
139 left the remaining members of the task force inadequate time to address the concerns of
140 the committee.

141 Although the Task Force was unable to come up with a consensus, the agreement of the
142 majority of the members is as follows:

- 143 1. The expansion area rates (GSS, IS-4 and ITS) and Extension Area Charges
144 (“EAC”) should be removed from the Questar Gas Tariff. The expansion area rates
145 can be found in Sections 2.03, 4.03 and 5.09, and the EACs are in Section 9.02 of
146 the tariff.
147
- 148 2. The revenues now being collected through the GSS, IS-4, ITS rates and EACs
149 should be rolled into the current GS-1, I-4 and IT rate schedules, and the rates for
150 those schedules should be adjusted so that this change is revenue neutral for the
151 combined classes (GS-1 and GSS, I-4 and IS-4, and IT and ITS).
152
- 153 3. The language in Section 9.02 of Questar Gas’ current tariff that discusses
154 “Availability of Service to New Service Extension Areas” (Pages 9-3 through 9-6)
155 should be removed.
156
- 157 4. The financing of the non-refundable contribution for any future expansion of
158 QGC’s distribution system into areas currently not served by natural gas should be
159 funded from third party sources before the expansion begins, and all other charges
160 or required contributions in aid of construction should follow the established main
161 and service line expansion policies included in Sections 9.03 and 9.04 of Questar
162 Gas’ current tariff.
163
- 164 5. Questar Gas should file a tariff change with the Commission to incorporate the
165 above-mentioned changes, including the support for the proposed rate changes.
166

167 **Q. Why did the Task Force propose to eliminate the expansion area rate premiums?**

168 A. The status and continuation of the expansion area rate premiums and Expansion Area
169 Charges (EAC) became the subject of discussions and meetings among the Company
170 (Questar), the Division, the Committee, the Commission Staff, representatives of the
171 expansion area communities and other interested parties beginning in mid 2005. On
172 December 6, 2005, the Commission held a technical conference for all interested parties to
173 address this issue. It was in consideration of these discussions that the Company and
174 Division agreed to propose that the expansion area rates (GSS, IS-2, IS-3, IS-4 and IT-S)
175 be eliminated at this time. The Joint Application also requests the Commission to appoint
176 a task force to further discuss the best course of action in regard to the existing EACs and
177 to recommend tariff language to address future requests by communities for expansion of

178 the system. On May 26th the Commission issued an order to request that the task force
179 begin meeting immediately and issued a final report to the Commission within 90 days.
180 The first meeting of the Task Force was held on June 13, 2006.

181 Ultimately, as you are aware from the report submitted to the Commission, the feeling of
182 the majority of the members of the Task Force was that the GSS and EAC rates were
183 becoming an economic development barrier, other Questar Customers would only be
184 affected in a minor way, residential customers in these areas were negatively impacted by
185 the rates and finally, Questar would be held harmless in the process. In other words,
186 Questar would receive essentially the same revenue whether the tariff change was
187 implemented or not.

188 **Q. With the elimination of the Tariffs does the Company have any incentives to expand**
189 **services to new areas?**

190 A. Absolutely. While the Task Force was unable to come up with specific recommendations
191 for expansion into new service areas, it was agreed by the Task Force that requests for
192 expansion would continue to develop. Furthermore, it was recognized that a long-term
193 solution needed to be developed. A number of possible solutions were presented
194 including legislative funding, applications to the Industrial Assistance Fund, legislative
195 changes enabling application to other funds such as PCIB (Permanent Community Impact
196 Board).

197 **IV. COMMITTEE OF CONSUMER SERVICES**

198 **Q. Was the Committee of Consumer Services asked to represent the residents of Emery**
199 **County to provide necessary expertise?**

200 A. Yes. Delynn Fielding and Michael McCandless attended the June meeting of the
201 Committee of Consumer Services to request their assistance in addressing the issues that
202 were before the Commission in this Docket. While the Committee was generally helpful,
203 they communicated to us that they do not believe that they represent our residential
204 customers. Instead, they represent the “majority” of residential users in Utah, which are
205 located along the Wasatch Front.

206 It was our hope that the statutory responsibility of the Committee to represent residential
207 customers in utility proceedings would be fulfilled. It became clear very early in the
208 process, however, that the committee would not accept this responsibility for residential
209 customers in rural areas.

210 **Q. Was the Committee of Consumer Services provided adequate access to information**
211 **in order to formulate an opinion?**

212 A. Yes. Dan Gimble, Chris Keyser, Eric Orton and Reed Warnick all represented the
213 Committee of Consumer Services during the hearings, as well as Betsy Wolf representing
214 the Salt Lake Community Action Program. All requests for information from Questar by
215 these members or other members of the Task Force were delivered and discussed in the
216 meetings.

217 Included in the Task Force Report is the technical and financial information that was
218 discussed by the group during the meetings. This includes the history of the GSS and
219 EAC rates, financial impacts to Questar, amounts paid by affected customers up to date,
220 alternative options rather than rolling the rates into the general rates at this time.

221 Recent articles in local newspapers seem to indicate that the Committee was not provided
222 with the information and therefore cannot support the recommendation. This is
223 completely without merit. All Task Force members were provided access to any
224 information that was requested and offers were made by other Task Force members to
225 hold additional meetings if necessary in order to disseminate the necessary information.

226 **Q. Was the Committee of Consumer Services concerned or responsive to the needs of**
227 **Small Business or Small Commercial Enterprises?**

228 A. No. The only discussions I recall were relating to the concerns of low income residents on
229 the Wasatch Front. This is a concern because our original concerns about the Tariffs were
230 in relation to economic development needs. UCA 54-10-4 states,

258 representing small business enterprises in our communities, as per statute, has not only
259 elected not to represent this population, but appears to oppose the application.

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

261 **A. Yes.**

I, Michael B. McCandless, 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.

State of Utah)
 : ss.
County of Emery)

Michael B. McCandless

SUBSCRIBED AND SWORN TO this 10th day of January 2007.

Notary Public