

Michael McCandless
Economic Development Director and Planner
EMERY COUNTY
P.O. Box 297
95 East Main St.
Castle Dale, UT 84513
(435) 381-3568
mikem@emery.utah.gov

Emery County Economic Development Director

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION)	
OF QUESTAR GAS COMPANY TO)	
INCREASE DISTRIBUTION RATES AND)	Docket No. 13-057-05
CHARGES AND MAKE TARIFF)	
MODIFICATIONS)	SURREBUTTAL TESTIMONY
)	OF MICHAEL McCANDLESS
)	
)	
)	

EMERY COUNTY hereby submits the Rebuttal Testimony of Michael McCandless in this docket.

Dated this 6th day of January, 2014

Michael McCandless
Emery County Economic Development Director

Dave Blackwell
Emery County Attorney

SURREBUTTAL TESTIMONY

OF

MICHAEL McCANDLESS

FOR

EMERY COUNTY

JANUARY 6, 2014

Docket No. 13-057-05

1 **Please state your name and business address.**

2 Michael McCandless, P.O. Box 297, Castle Dale Utah, 84513.

3

4 **Please state your position and describe your responsibilities with Emery County.**

5 I am the Economic Development Director and County Planner for Emery County. My

6 responsibilities include all business expansion, development and recruiting for Emery County.

7 In addition, I provide business counseling services to start up and existing businesses in and

8 around Emery County. In my responsibilities as County Planner, I am responsible for all aspects

9 of the Building Department and the care and upkeep of the County General Plan and the Emery

10 County Zoning Ordinance.

11

12 **Please state if you have other responsibilities on a statewide basis that affect this**
13 **proceeding.**

14 I am member of the Governors Rural Partnership Board (GRP). This Board works hand

15 in hand with the Governor's Office of Economic Development and the Lt. Governor to develop

16 policies and legislation that can be adopted by policy or by legislation. Natural Gas Line

17 Extension Policies have been highlighted by the GRPB as a top priority since 2005.

18

19 **For which party will you be offering testimony?**

20 I will be offering testimony for Emery County, which has been granted intervention in

21 this docket.

22

23 **Have you testified before the Public Service Commission (“PSC”) on previous occasions?**

24 Yes.

25

26 **What is the purpose of your testimony?**

27 The main purpose of my testimony is to rebut portions of the testimony submitted for the
28 Utah Homebuilders Association (“UHBA”) by Rick Ford dated December 12, 2013. Any
29 reference to Mr. Ford’s testimony throughout my testimony refers to his pre-filed testimony
30 described in the previous sentence.

31

32 **Can you briefly explain Emery County’s interest in this particular Docket?**

33 Emery County currently has two incorporated communities that do not have natural gas
34 service, Green River and Emery. In addition, the county has an unincorporated area known as
35 Lawrence that is desirous to get natural gas service. Furthermore, the county has been involved
36 in natural gas line extension policy issues for a number of years, specifically for the communities
37 of Elmo and Cleveland.

38

39 **Are you aware of other local governments that have similar interests as Emery County in
40 this Docket?**

41 Yes. Specifically, Millard County, Daggett County and Kane County have all
42 communicated substantial interest in this issue. We have also had indirect communication for a
43 number of other cities and towns in Carbon, Wayne and Grand Counties. This issue is talked
44 about during each GRPB Board meeting.

45

46

I. General Commentary

47 **Can you provide a more detailed view in Emery County's interest in these proceedings?**

48 The communities of Green River, Emery and Lawrence are currently not served by
49 Natural Gas. It is our observation that this has begun to create economic disparity between these
50 communities and other communities in our county and in our region. As a particular example,
51 Green River sits directly on Interstate 70 and US Highway 6, has substantial quantities of water
52 available for development, has access to rail and high speed telecommunications. Without
53 access to Natural Gas service, however, the community has had a difficult time recruiting new
54 business into the area. Despite a very aggressive marketing approach, the commentary we
55 receive each time recruit a new business is that the operational costs for heating or
56 manufacturing processes without natural gas are too much to overcome. Even when we have
57 been successful in recruiting new business, the lack of natural gas infrastructure creates an
58 economic challenge that means the business has less free cash flow available to expand or hire
59 more workers.

60 In the case of Emery and Lawrence, the primary concern is for residential customers.
61 These rural, bedroom communities do not have substantial retail or professional businesses
62 located in them to generate employment. The vast majority of residents utilize propane, coal or
63 wood for heating. The typical cost of heating a home using propane is approximately 3 times
64 more than with Natural Gas. Coal prices have surged now and coal has become more expensive
65 for a typical homeowner than propane. Many residents in Emery town have monthly propane

66 costs averaging \$600 per month during the winter. In some cases, this is with a fixed income of
 67 less than \$1000 per month.

68 We view the proposed line extension changes to the Tariff as key to increasing the
 69 availability of natural gas services to these potential customers.

70 Another reason Emery County and our other rural counties support the application for
 71 tariff change is in relation to air quality. In our experience, residences in rural areas use
 72 substantially more polluting sources for heat when natural gas is not available or affordable.
 73 According to the Division of Air Quality, 31% of the total PM 2.5 air quality problems are
 74 directly attributable to fuel combustion. This basically means wood stoves, coal stoves and
 75 fireplaces. This data is for the Wasatch Front. It is our expectation that the PM 2.5 contributors
 76 from fuel combustion in rural areas actually exceeds the Wasatch Front by as much as double.
 77 See the data below, compiled by Bonneville Research, representing the fuel combustion
 78 component of the current PM 2.5 contributors along the Wasatch Front:

79

SCC Level Four	Emissions_amt	%	Cumulative %
Woodstove: fireplace inserts; non-EPA certified	419.46	47.9%	47.9%
Fireplace: general	200.97	22.9%	70.8%
Woodstove: fireplace inserts; EPA certified; non-catalytic	86.17	9.8%	80.7%
Furnace: Indoor, cordwood-fired, non-EPA certified	85.40	9.7%	90.4%
Total: All Combustor Types	35.92	4.1%	94.5%
Woodstove: fireplace inserts; EPA certified; catalytic	29.90	3.4%	97.9%
Woodstove: pellet-fired, general (freestanding or FP insert)	18.02	2.1%	100.0%
TOTAL	876	100.0%	

80

81

82 It is our belief that support of the application to modify the Tariff will enhance access to natural
83 gas service and will subsequently increase air quality in the affected rural areas.

84

85 **What is Emery County's relationship with or involvement with Questar?**

86 For the past several years, Emery County has communicated with representatives of
87 Questar with a goal of finding ways to ease the high costs associated with line extensions in
88 Rural Utah. This has included numerous meetings, as well as discussions with the GRPB.

89

90 **Can you provide Emery County's position on the proposed Application for Tariff Change**
91 **by Questar?**

92 Emery County supports the proposed changes to the Tariff as submitted by Questar in
93 relation to the line extension policies. It is our opinion that these changes provide a level of
94 equity among subscribers that has been lacking in the past and has led to some of the economic
95 disparity that we have described.

96

97 **Can you describe Emery County's specific concerns with the testimony of Mr. Ford in**
98 **relation to the changes to service line and main extension cost allocations?**

99 The UHBA asserts in Mr. Ford's testimony on lines 101 through 125 that their primary
100 concern is that the proposed change in policy will negatively affect "low income" customers the
101 most and will provide an advantage to "larger and more-expensive homes". For the remainder of
102 the detailed testimony, however, the discussion is on the length of service and rate structure for

103 developers. The “low income” discussion seems to disappear. We are concerned that the
104 introduction of terms such as “low income” is only included to build sympathy to their position,
105 but the argument about the affect on this class of customers is never provided.

106 We believe the actual reason for the opposition to the change is they do not want to lose
107 access to what are now “free” natural gas connections for members of the UHBA. In higher
108 density communities (typically not rural) served by many members of the UHBA, a substantial
109 number of the homes they construct are extremely close to the Main Service Lines. Under the
110 current policy they are effectively getting “free” connections because the distance is less than 25
111 feet. Under the proposed changes, all customers, regardless of income or location will pay their
112 actual costs of construction, rather than subsidizing customers that are close to the main lines
113 through the costs recovered by customers that are further distances away from a Main line.
114 Because the vast majority of rural customers liver further away from a Main line rural residents
115 are effectively subsidizing customers that are close to the Main. Even within incorporated rural
116 communities, the distance to the home is further away than the majority of urban and suburban
117 developments. As a result, as a class of customers, rural customers are disproportionately
118 negatively affected by the current policy. The proposed change would ensure that all classes,
119 localities and types of customers would pay their fair share of the costs. In effect, we support no
120 subsidy or allocation for anyone as proposed in the application to change the tariff.

121 We would also assert that their testimony relating to low income customers ignores the
122 fact that communities in rural Utah are experiencing substantially lower income and higher
123 poverty rates than the state as a whole and would actually be better served by a change in the line
124 extension policy.

125 As an example, current census estimates of Median Household Income for Emery County
126 versus the State of Utah as a whole show income in Emery County of \$51,372 versus \$58,164 a
127 difference of more than 10%. In other rural counties, the disparity is greater. For example,
128 Millard County at \$47,235, Kane at \$46,979 and Daggett at \$44,792. This is then reflected in
129 the Median value of owner-occupied housing units, 2008-2012 – Where the value for Utah as a
130 whole is at \$217,800 and all of the listed rural counties fall between \$120,600 in Emery and
131 \$171,000 for Kane. This shows not only the decreased access to funding to construct new
132 homes, but it also shows the valuation difference in the homes once constructed.

133

134

II. Service Line Extensions

135 **Can you explain the current cost allocation system for service lines?**

136 We agree with Mr. Ford's description of the current system "Questar's formula for
137 calculating the customer's cost for a new service line basically takes the total cost of the service
138 line and then subtracts a calculated allocation from that cost, with any leftover amount to be paid
139 by the customer. The allocation for service line costs (essentially the amount of a new service
140 line that Questar will pay for) for a service line to a new house is written as follows (from
141 Questar's application for tariff changes in Docket 11-057-T02, attached as **Exhibit UHBA 1.1**):

142

$$(NC + EC) \times .50 \times .43$$

Where: NC = Average cost of adding a new customer.
EC = Average net cost of existing customers.
.50 = The percent of cost sharing between the new customer and the existing customer.
.43 = The service line and meter cost as a percent of average cost of adding a new customer.

143 That formula results in an “allocation” that offsets the actual costs of the new service line that
144 would be charged to a customer. Based on my understanding of Questar’s formula, the “NC”
145 variable is based on the cost of the service line for an “average” new customer, which Questar
146 notes as having a 46 foot service line in 2011 (see **Exhibit UHBA 1.2**). The “EC” variable is
147 calculated by dividing Questar’s net investment in service lines by the total number of customers
148 in the particular class. The 0.43 number is the average distribution of costs between mains and
149 service lines, meaning that for the average new customer, 43 percent of the cost of connecting
150 gas service is attributable to the service line costs. Finally, the 0.50 is ostensibly to share costs
151 “50-50” between new customers and existing customers (see Summers testimony at line 518”).

152

153 **What is your opinion of the current service line cost allocation system?**

154 This is where we disagree with Mr. Ford. It is our contention that the current system
155 provides a substantial and increasing obstacle to customers that are further away in distance than
156 those that are close. Because rural customers are disadvantaged by their typical distance to a
157 main line, they effectively are contributors to an unfair subsidy system. As a result, the current
158 system is broken and needs to be revised.

159

160 **III. Main Line Extensions**

161 **Does Emery County have an opinion on the changes to Main Line Extensions?**

162 Emery County supports the proposed changes to the Main Line Extension policies for the
163 same reasons listed for the service lines. We anticipate lower costs to customers, especially for
164 longer line extension projects. We also believe this to be a more equitable system than the
165 current policy.

166

167 **And what is the proposed main extension policy as describes by Questar?**

168 Mr. Summers describes the proposed main extension policy at line 523 of his testimony
169 for Questar. Questar proposes to do away with the allowance and the refunds and instead require
170 an initial payment from the customer or builder when the main is installed. This initial payment
171 from the customer/builder would be the “external” costs of the main extension, while Questar
172 would be covering the “internal” costs. Questar claims that costs would be shared 50-50, much
173 as I previously described with service line extensions.

174

175 **IV. Self-Installation**

176 **Can you describe the reasoning that Questar gives for the proposed changes?**

177 Mr. Summers, at line 539 of his testimony, states that the proposed changes benefit
178 customers by lowering up-front costs for service lines and main extensions.

179

180 **What is your opinion on that claim?**

181 In this area, we support Mr. Ford and the UHBA. In the areas that I represent, this
182 change to the policy could provide a clear cost advantage to customers that have the technical
183 skills necessary to install the line extensions. We have already identified numerous potential
184 customer opportunities that could arise as a result of this option becoming available to Questar
185 customers. We support lines 356 through 406 of Mr. Ford's testimony.

186

187

V. Concluding Comments

188

Do you have any concluding remarks and/or recommendations to the Commission?

189

On behalf of Emery County, I appreciate the work that both Questar and the various
190 interveners have put into this case, as well as the opportunity to participate in these proceedings.

191

192

Does this complete your testimony?

193

Yes, it does. Thank you.

CERTIFICATE OF SERVICE

I hereby certify that on the 6th day of January, 2014, I served a true and correct copy of the foregoing **Surrebuttal Testimony of Michael McCandless** by causing the same to be delivered to the following:

Via hand delivery and email to:

UTAH PUBLIC SERVICE COMMISSION
c/o Gary Widerburg, Commission Secretary
160 East 300 South, Fourth Floor
Salt Lake City, Utah 84111
psc@utah.gov

Via hand delivery to:

Office of Consumer Services
160 East 300 South, 2nd Floor
Salt Lake City, Utah 84111

Via e-mail to:

Colleen Larkin Bell (colleen.bell@questar.com)
Jenniffer Nelson Clark (jenniffer.clark@questar.com)
Questar Gas Company

Gary A. Dodge (gdodge@hjdllaw.com)
Counsel for Utah Association of Energy Users and US Magnesium LLC

Kevin Higgins (khiggins@energystrat.com)
Neal Townsend (ntownsend@energystrat.com)
Energy Strategies

Damon E. Xenopoulos (dex@bbrslaw.com)
Jeremy R. Cook (jrc@pkhlawyers.com)
Attorneys for Nucor Steel, a Division of Nucor Corporation

Dale Hatch, CFO (dhatch@dunfordbakers.com)
Dunford Bakers

Karen White (Karen.White.13@us.af.mil)
Gregory Fike, Lt Col, USAF (Gregory.Fike@us.af.mil)
Christopher Thompson, Maj, USAF (Christopher.Thompson.5@us.af.mil)
Thomas Jernigan, Capt, USAF (Thomas.Jernigan@us.af.mil)
Attorneys for Federal Executive Agencies

Roger Swenson (roger.swenson@prodigy.net)
US Magnesium LLC

Larry R. Williams (larry@summitcorp.net)
Corporate Counsel for Summit Energy, LLC

Floyd J. Rigby, CEO (FloydR@ucmc-usa.com)
Travis R. Rigby, CFO (TravisR@ucmc-usa.com)
Bruce Floyd Rigby, Natural Gas Manager (Bruce@ucmc-usa.com)
Utility Cost Management Consultants

Douglas E. Griffith (dgriffith@keslerrust.com)
Counsel for Utah Asphalt Pavement Association

Reed Ryan (reed@utahasphalt.org)
Utah Asphalt Pavement Association

Michael McCandless (mikem@emery.utah.gov)
Emery County Economic Development

David Blackwell (daveb@emery.utah.gov)
Emery County Attorney

William J. Evans (bevans@parsonsbehle.com)
Vicki M. Baldwin (vbaldwin@parsonsbehle.com)
Parsons Behle & Latimer