

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF APPLICATION OF)	
MOUNTAIN FUEL SUPPLY COMPANY)	DOCKET NO.
9192)	
FOR A GENERAL INCREASE IN RATES)	SUB 68
AND CHARGES INCIDENT)	
TO NATURAL GAS SERVICE)	
RENDERED WITHIN STATE OF WYOMING.)	

A P P E A R A N C E S

RAY G. GROUSSMAN, GARY G. SACKETT and RICHARD MOLLINET, Attorneys at Law, Salt Lake City, Utah, appearing for Applicant, Mountain Fuel Supply Company.

RALPH H. KIRSCH and EDWARD W. CLYDE, Attorneys at Law Salt Lake City, Utah, appearing for Wexpro Company.

BRUCE S. ASAY, and DAVID J. LUCERO, Staff Counsel for the Wyoming Public Service Commission, appearing for the Intervenor, Staff.

JOHN D. ROSSETTI, Attorney at Law, of Greenhalgh, Bussart, West and Rossetti, P.C., of Rock Springs, Wyoming and JAMES N. ROETHE, Attorney at Law, of Pillsbury, Madison and Sutro, San Francisco, California, appearing for the Intervenor, FMC Corporation.

D. THOMAS KIDD, Attorney at Law of Casper, Wyoming and FREDERICK S. WAISS, Attorney at Law, of O'Donnell, Waiss, Wall and Meschke, of San Francisco, California, appearing for Intervenor, Stauffer Chemical Company.

FRANK J. ZEBRE, Attorney at Law, Kemmerer, Wyoming and WILLIAM GREY of Kemmerer, Wyoming, appearing for Intervenor Western Wyoming Utility Consumer Action Group.

H E A R D B E F O R E

CHAIRMAN JOHN R. SMYTH

DEPUTY CHAIRMAN G. KEITH OSBORN
COMMISSIONER C. E. JOHNSON
Chairman Smyth presiding.

PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

STATEMENT OF CASE

This matter is before the Commission upon the application of Mountain Fuel Supply Company, hereinafter referred to as Mountain Fuel, for authority to revise and increase existing gas utility rates to its subscribers in southwestern Wyoming.

RATE HISTORY

1. Applicant's last general rate application was in Docket No. 9192 Sub 49, wherein the Commission authorized an increase of \$1,173,000 in rate relief to the utility. That order was issued on the 23rd day of September 1980.

2. The Commission also granted general rate relief in Docket No. 9192 Sub 31 issued on December 19, 1978; Docket No. 9192 Sub 31 on April 9, 1976; Docket No. 9192 Sub 4 dated December 24, 1971; Docket No. 9192 Sub 1 dated November 7, 1960; and finally, Docket No. 9192 granted the initial increase under this Docket number on August 17, 1951.

PROCEDURAL HISTORY

3. Mountain Fuel filed two applications for general rate relief on April 22, 1981, both applications were filed under Docket No. 9192 Sub 68. The first application, entitled "The Permanent Application", requested \$2,633,000 in rate relief and is based on a future or projected test year. The second application, entitled "The Interim Request", requested interim rate relief in the annualized amount of \$2,278,000 pending the resolution of the Permanent Application. It is based on an historical test year which has traditionally been used by this Commission.

4. By Order dated May 7, 1981, the Commission denied Mountain Fuel's request for interim relief stating that it had "failed to show sufficient basis for the granting of interim authority".

5. On May 22, 1981, the Commission suspended Mountain Fuel's rate increase request in Docket No. 9192 Sub 68 for the maximum period specified by Wyoming Statute.

6. On June 8, 1981, Mountain Fuel filed a Petition for Rehearing/Reconsideration asking that the interim relief be granted subject to refund, or in the alternative that a public hearing be held on the matter.

7. The Commission, by separate order dated the 15th and 17th of June, 1981, sat the permanent and interim rate applications

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under Docket No. 9192 Sub 68 as well as a tariff change in Docket No. 9192 Sub 69 for public hearing in Rock Springs, Wyoming on the 8th day of July, 1981. Notice was published in the Uinta County Herald in Evanston, Wyoming and the Rock Springs Rocket-Miner in Rock Springs, Wyoming. Docket No. 9192 Sub 69 has been dealt with by prior order.

8. The Staff of the Wyoming Public Service Commission, hereinafter referred to as Staff, filed a Notice and Motion to Intervene in

the above proceeding on May 11, 1981. The Staff was allowed to intervene on the same date.

9. Stauffer Chemical Company of Wyoming, hereinafter referred to as Stauffer, petitioned to intervene on May 15, 1981. The Commission authorized intervention on June 9, 1981.

10. FMC Corporation, hereinafter referred to as FMC, petitioned to intervene on June 3, 1981. It was allowed to intervene on June 9, 1981.

11. By letter dated June 25, 1981, the Western Wyoming Utility Consumer Action Group notified the Commission that it wished to intervene in the rate hearing. By order dated July 29, 1981, the Commission allowed its intervention.

12. Pursuant to public notice, the hearing commenced on the 8th day of July, 1981, at the hour of 9:00 am. in the Hospitality Room, Rock Springs National Bank, 333 Broadway, Rock Springs, Wyoming.

13. At the onset of the hearing, Applicant petitioned the Commission for a severance of a portion of Staff's case. Applicant argued that they were surprised by Staff's filing and had not had sufficient time to prepare. The Commission granted the Motion of Applicant, allowing the "Wexpro matter" to be heard on the 5th day of October, 1981 in Cheyenne, Wyoming.

14. Later, upon the request of Applicant, the Commission allowed it to present rebuttal evidence on the "wage issue" in Cheyenne, Wyoming on the 11th day of August, 1981.

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FINDINGS OF FACT

15. Applicant, Mountain Fuel Supply Company, is a corporation organized under the laws of the State of Utah having its main Wyoming office at Rock Springs, Wyoming. A certified copy of Applicant's Articles of Incorporation, together with all amendments thereto is on file with this Commission. Applicant is a public utility as defined by the Wyoming Statutes and renders service in southwestern Wyoming, which service is subject to the jurisdiction and regulation of the Wyoming public Service Commission.

16. FMC Corporation and Stauffer Chemical Company of Wyoming are large industrial consumers of Mountain Fuel. These companies have plants located west of Green River in Sweetwater County and are competitively engaged in the refining and processing of soda ash from trona deposits mined in that vicinity.

17. Western Wyoming Utility Consumer Action Group is an association of Wyoming utility consumers operating primarily in portions of southwestern Wyoming.

18. The Staff intervenes in rate proceedings in which the utility proposes policies the Staff feels may not be in the best interest of the consuming public or in which a utility is seeking a rate increase in excess of what the Staff considers to be reasonable. In cases where the Staff intervenes, those members of the Staff involved in the case separate themselves from the Commission and are not allowed to discuss the case with the Commission before, during, or after the proceeding. The members of the Staff are independent from any influence of the Commission and have the same status as the applicant or other intervenors.

TEST YEAR PERIOD

19. Mountain Fuel proposes to use a projected or future test year for purposes of this case. They use the 12-month period from January 1, 1981 to December 31, 1981 as their test year. It is their position that in times of inflation and operational changes, an historic test year causes rates to be lower than

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needed and does not represent the cost of doing business during the time the new rates would be in effect. Conversely, a projected test year is said to be more compatible with conditions that would exist when the rates are in effect. Though they admit that a future test year would be more difficult to analyze and monitor, and may not be as accurate, Applicant feels that it more closely approximates what occurs in the future.

20. Staff opposed the use of a future test year in this case, noting that the projections asserted by the Company were too subjective, inaccurate, and at most a "best guess". Witness Howell indicated that each item to be projected requires a subjective choice as to the methodology and time frame to be used in its projection. The Witness noted that the Company's subjective computations used in projections, "build in" a liberal bias affecting the result. Mr. Howell asserted that a generous revenue figure would become a "self fulfilling prophecy" since the Company would adjust their expenses to conform with the projection, removing the incentive to contain costs. Finally, Staff asserted that the historical test year it adopted, the period from January 1, 1980 to December 31, 1980, would allow a reasonable opportunity for the Company to earn their authorized rate of return, in addition it would provide incentives for efficiency and a proper review by Staff.

21. This case must be viewed in the light of the Commission's statutory mandate, its rules and case law. This Commission has traditionally relied upon data which was "known and measurable." The record in this matter reveals that Mountain Fuel would have this Commission rely upon a projected test year ending December 31, 1981. This projected test year is based upon computer projections whose bases are historical results of the operations of Mountain Fuel Supply Company. This Commission has a grave concern that adoption of such a test year would serve to violate the "known and measurable" principle which has served this Commission so well in the past. Although the Commission

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finds that contemporary ratemaking requires it to be cognizant of those conditions and circumstances that will exist prospectively for a utility seeking rate relief, we find that appropriate adjustments to an historical period will adequately account for such changes in this case.

22. The Commission adopts the historical test year used by Staff in this case. The projected test year sponsored by Applicant is fraught with uncertainty and speculation; it is too subjective for our purposes. The subjectivity involved in any fore cast creates a company bias which could result in an excessive return for the period of the test year.

REVENUES AND EXPENSES

WAGE ADJUSTMENT

23. The Staff adjusted the employee wage expense downward by \$1,387,643, a figure representing the amount of wage expense exceeding other comparable companies. The Staff's expert, Mr. Merrill Norman, based his analysis on Mountain Fuel's own internal study of comparable studies. This study which was conducted by Mountain Fuel in the spring of 1980, showed salaries paid employees of that company to be 5% above selected positions in other companies. Though Mr. Norman did not attack the validity of the results, he did note that selected companies had been omitted, which if included would have increased Staff's adjustment. Even excluding those companies paying lower salaries, Mountain Fuel's study showed a growth in wages significantly above the growth in the Consumer Price Index, or the growth experienced by other companies. Mr. Norman testified that Applicant's 1980 wage increase for non-exempt employees was 22-23 percent, yet this excessive figure excluded the "merit" increases which are given to all but the most undeserving.

24. Applicant stated that their wage practices were careful, cautious, and concerned with the Company's ability to obtain and retain trained, qualified personnel. They did not dispute Mr. Norman's perception of the magnitude of the increases, nor the

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Public Service Commission's authority to investigate and correct inordinate wage increases.

25. On the evidence presented, we find Mountain Fuel's wage and salary policies and practices to be within the ambit of prudent management prerogative, and we find that the wages and salaries currently paid to its employees to be expenses prudently incurred in the course of exercising reasonable management judgment. We therefore find Staff witness Norman's recommended adjustment in this regard to be improper.

THE EL PASO SALE

26. During the latter part of 1979 and the beginning months of 1980 Applicant made an emergency off system sale to El Paso Natural Gas Company. Applicant excluded the 1980 revenues from this sale from revenue consideration on the rationale that the sale was a one-time and non-reoccurring event. The company justified this sale by asserting that it had not exceeded its authorized rate of return, that it had complied with all applicable regulatory strictures, and that it could have avoided consideration of the topic by merely changing its test year period.

27. The Staff opposes Applicant's adjustment for the El Paso sale, advocating that it be recognized in establishing appropriate test year revenues. Staff Witness Norman, testified that the Company sold approximately 5,000,000 Mcf of natural gas to El Paso at an average sales price of \$2.19 per Mcf, which sale resulted in total revenues of approximately \$11,000,000 to the Company. The company, by assigning arbitrarily low gas costs to the El Paso sale, was able to pass on before-tax profits of approximately \$8,000,000 to its shareholders. Mr. Norman testified that the Company has made similar sales in the past and that the Company is modifying its system to accommodate additional sales in the future. The Staff did not oppose the El Paso sale itself or any future sales

for resale; they argued, however, that the ratepayers should receive an appropriate benefit from the sale, which would occur when the gas sold was appropriately priced.

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28. The Commission adopts the Staff's position on this issue, and will recognize the revenue from the El Paso sale for resale. The Staff has adequately demonstrated the utility's two recent sales and modifications to transmission plant which facilitate future sales. The Commission rejects any intimation made by Applicant that it could avoid any examination of this issue by merely adjusting its test year. We would reject as improper any test year presented to us based on a particular period, merely because it avoided a significant test year event.

EXPLORATION EXPENSE AND RELATED ITEMS

29. Mountain Fuel again announced its stated policy not to pursue an on-going fully funded exploration program as a utility. This policy forced the Company to make the following three adjustments: (a) Account 105 properties, those which related to undeveloped leaseholds were removed from rate base; (b) Account 186, the exploration expense was removed; (c) tax deductions relating to exploration expense were removed.

These adjustments were contested by the Staff but the issues are resolved by a stipulation entered into between Staff, Mountain Fuel and Wexpro Company, a wholly owned subsidiary. The so called "Wexpro in Committee of Utah, 595 P.2d 871 (Utah 1979) whereby it was sought to include the oil producing properties of Wexpro as utility property and operations. Without commenting upon the relative merits of the Utah Supreme Court's decision, the Commission finds the stipulation submitted by the parties to be proper, and in the best interests of the consumers of Mountain Fuel. To allow the dispute between the Committee and Mountain Fuel to continue would be a significant waste of both the ratepayers' and stockholders' money in legal fees and court battles as well as causing different decisions by different regulatory agencies. The Commission will approve the stipulation. One result of the Stipulation will be a reduction in Mountain Fuel's

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cost-of-service in the pretax amount of \$21 million, 10% of which will flow to Mountain Fuel's Wyoming customers. The cost-of-service reduction will be for a period of twelve months and will be accounted for by the Company as a part of the Account 191 balancing account adjustment provisions of its tariffs on file with and approved by the Commission, except for the portion required to be directly allocated to incrementally priced industrial customers under the Natural Gas Policy Act.

30. Mountain Fuel has proposed to begin monthly meter reading of its Wyoming residential customers. By bench ruling at the July 15, 1981, hearing, the Commission pointed out that Mountain Fuel has always had the authority to institute such action and urged it to carry out such a policy. During the hearings, Mountain Fuel indicated that its request for interim

relief, based on the 1980 test year, did not contain additional expenses to correspond to the additional activities involved with monthly meter reading and estimated them to be approximately 645,000 per year. Staff concurred with Mountain Fuel's proposal and did not oppose the inclusion of this additional amount for coverage of the cost of such activities. We therefore find that Mountain Fuel's 1980 test-year cost of service for Wyoming should be increased by \$45,000 to cover such additional meter-reading costs. In addition, at the hearings, Mountain Fuel modified its total cost of service to reflect a change in its treatment of the write-off of the dry-hole expenses associated with its Kinney Well No. 3. This reduced the Wyoming cost of service by some \$162,000, an adjustment concurred with by Staff.

31. Staff indicated a \$36,000 adjustment to revenues corresponding to a correction of certain gas costs related to miscellaneous sales, an adjustment with which Mountain Fuel concurred. We therefore find that Mountain Fuel's Wyoming cost of service should be increased by \$36,000 for this adjustment.

32. Staff proposed an \$86,000 adjustment to Mountain Fuel's net Wyoming cost of service for a "weather normalization" calcu-

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lation that takes into account the fact that 1980, as a test year, exhibited generally warmer-than-normal temperatures in southwest Wyoming. Mountain Fuel had made no adjustment for this factor but concurred that such an adjustment was appropriate if it is made consistently in each rate case. We therefore find that a reduction in Mountain Fuel's Wyoming cost of service of \$86,000 should be made to reflect the probable increase in revenues that would result from a normal weather year.

RATE OF RETURN

33. The Commission, in determining the rate base elements including rate of return must rely on factually-based evidence as far as possible under the "used and useful" and "known and measurable" ratemaking concepts. The Commission has accepted discounted cash flow, comparable earnings, and other evaluations as a basis in establishing a reasonable rate of return.

34. Mountain Fuel's rate of return expert, Mr. Glenn, presented a return on common equity of 16.50%, based on a discounted cash flow analysis, comparable earnings, debt-plus-premium approach, capital asset pricing model, and an Earnings/Price Ratio approach. The Witness determined an overall rate of return on rate base of 12.44% based on a test year ending December 31, 1980 in its interim application.

35. The Staff's witness, Mr. Nowell, supported a 14.10% rate of return on common equity based on a discounted cash flow analysis and a comparable earnings study using 26 comparable companies. The Staff applied Mountain Fuel's test year-end capitalization and historical debt costs to determine an overall rate of return on rate base of 11.34%.

36. The Commission finds that a 14.10% rate of return on common equity and a 11.34% rate of return on rate base is fair and reasonable and supported by the evidence. The capital structure of Mountain Fuel as of December 31, 1980 is as follows:

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	CAPITAL WEIGHTED RATIO	EMBEDDED COST AND RETURN	COMPOSITE COST
Long-Term Debt	42.04%	8.65%	3.64%
Preferred Stock	11.95%	10.14%	1.21%
Common Equity	<u>46.01%</u>	<u>14.10%</u>	<u>6.49%</u>
	100%		11.34%

37. Keeping in mind all the above discussed issues, the Commission finds that Mountain Fuel should be granted an increase in its rates in the amount of \$893,000. This is the result of the use of a Wyoming rate base in the amount of \$23,994,000, a total cost of service in Wyoming of \$8,488,000 and a revenue from current rates of \$7,595,000 for the test period ending December 31, 1980. The amount gives due consideration to all the issues previously addressed as well as the effects of the stipulation of the Wexpro issues referred to above.

RATES

38. Mountain Fuel presented evidence to show that there continues to exist a cost-of-service differential between those customers served under the GS-1 and GS-1-A rate schedules. In Docket No. 9192 Sub 49, the Commission found that the original additional cost of installing facilities to serve customers under the GS-1-A rate schedule had previously been recovered. We find in this case that the operating cost-of-service difference between GS-1 and GS-1-A is decreasing and has become minimal. Therefore, we find that it is in the public interest to eliminate the existing 30% differential between the two rate schedules.

39. FMC Corporation presented evidence that attempted to establish a different type of relationship among the interruptible classes of customers. FMC's witness James Lim did not disagree with the cost-of-service allocation between Mountain Fuel's total firm service classes and the aggregated industrial interruptible service. However, he noted that the difference in rates among the interruptible schedules was not large enough to relate realistically to the different quality of service offered among those rate schedules. Specifically, the higher levels of interruptibility for I-6, for example, did not in his opinion

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justify such a small differential in price relative to service under the I-2 rate schedule.

40. Mountain Fuel indicated that FMC's proposal to solve this problem created an even more severe inconsistency by assigning a tariff rate to I-2 service that was higher than that for certain firm service rates.

41. Because FMC's proposal would result in certain firm service being less expensive than some interruptible service, we find that Mountain Fuel's rate allocation in this regard may be more appropriate. However, we are cognizant of the problems raised by FMC and direct Mountain Fuel to address this problem in more detail at its next major rate case before this Commission.

42. Staff did not contest Mountain Fuel's cost-of-service study, nor, with the exception of the GS-1-A issue, its allocation of revenues to the various customer classes. We therefore find that the cost-of-service,

jurisdictional and rate allocation methodologies presented by Mountain Fuel yield just and reasonable rates, to be modified by those set forth elsewhere in this Order, except with regard to Mountain Fuel's total firm service Commission will require Mountain Fuel to address this problem more fully in its next rate proceeding before this Commission. In the meantime, Mountain Fuel shall not reduce rates to any classes and the aggregated industrial interruptible service. The industrial customer and shall increase its rates to its I-4 customers in proportion to the increase granted by the Commission and the amount originally requested by Mountain Fuel.

43. Staff witness Norman proposed that all costs and revenues associated with all Mountain Fuel's sales for resale be accorded treatment through the mechanism of Account 191. This Commission, under Sections 249 and 250 of its Rules, has approved in Docket No. 9192 Sub 65 Mountain Fuel's commodity balancing account (Account 191). Its specific purpose is to match directly the costs of gas sold to Wyoming customers with the recovery of

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those costs through rates. It was not approved as a mechanism to balance other revenues, or other costs and expenses. Adoption of Staff's proposal would expand the operation of the balancing account beyond its intended scope.

44. Further, there is no evidence that Mountain Fuel's net operating results, including revenues from past sales for resale, have permitted Mountain Fuel to significantly, if at all, exceed the return authorized by this Commission. To the contrary, most recent years show Mountain Fuel to have earned a return lower than that authorized. Therefore, the Commission finds no reason to expand the scope of the 191 Account. It will, however, allow the use of the 191 Account to effect the reduction in Mountain Fuel's cost-of-service resulting from the Stipulation addressed above, since it appears to be the most effective and least costly method of reflecting that reduction.

45. Mountain Fuel proposed, and the Commission approved by bench ruling on July 15, 1981, a change in accounting and billing practices that would state usage and related quantities in therms and decatherms rather than volumes. We affirm our previous bench ruling and authorize Mountain Fuel to issue its rate schedules and other reporting documents to this Commission on a thermal basis.

CONCLUSIONS OF LAW

1. Mountain Fuel is a public utility as defined by W.S. 37-1-101 (1977).
2. The Commission has jurisdiction over Mountain Fuel and the application for rate increase pursuant to Title 37 of the Wyoming Statutes (1977).
3. The proposed tariffs were properly suspended pursuant to W.S. 37-3-106 (1977).
4. The application and proceeding was a contested case as defined by U.S. 9-4-101 (1977); proper notice was given to the public and all necessary parties in accordance with W.S.

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9-4-107(a) and (b), 37-2-201, 37-2-202 (1977), and the Wyoming Public Service Commission Rules of Practice and Procedure.

5. A public hearing was conducted pursuant to U.S. 9-4-107, 9-4-108, 37-2-120, 37-2-201 and 37-2-203 (1977), and Public Service Commission Rules of Practice and Procedure.

6. The evidence presented at the hearing demonstrates that the present rates of Mountain Fuel, are inadequate, unremunerative and unreasonable and should be increased by \$893,000 annually.

ORDER

IT IS THEREFORE ORDERED THAT:

1. The application of Mountain Fuel Supply Company for authority to revise and increase existing gas utility rates to its subscribers in southwestern Wyoming approximately \$2,633,000 be, and it is hereby denied.

2. The application of Mountain Fuel Supply Company for authority to implement interim authority of any kind be, and it is hereby, denied.

3. The Stipulation dated October 15, 1981, entered into between Mountain Fuel Supply Company, Wexpro Company and the Staff be, and it is hereby, approved.

4. Mountain Fuel Supply Company be, and it is hereby, authorized to increase its rates on an annualized basis in the amount of \$893,000.

5. Mountain Fuel Supply Company shall forthwith file tariffs to reflect the above authorized increase.

6. Mountain Fuel Supply Company shall forthwith file to modify the Account 191 balancing account adjustment provisions of its tariffs to reflect the \$2.1 million reduction in its cost-of-service as set forth in the Stipulation hereinabove approved by the Commission.

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7. This order is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming this 28th day of October, 1981.

PUBLIC SERVICE COMMISSION OF WYOMING

JOHN R. SMYTH, Chairman

G. KEITH OSBORN, Commissioner

(SEAL) C. E. JOHNSON, Commissioner

ATTEST:

LARRY V. ROGERS, Assistant Secretary

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