

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

News Release

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**UTILITIES COMMISSION GRANTS FINAL CERTIFICATE  
TO FRONTIER UTILITIES**

The North Carolina Utilities Commission issued an Order today granting Frontier Utilities of North Carolina, Inc. a final Certificate of Public Convenience and Necessity to construct and operate a pipeline and distribution system to provide natural gas service to Surry, Watauga, Wilkes and Yadkin Counties. The Commission's Order denied the competing application filed by Piedmont Natural Gas Company, Inc. to provide service to the same area.

In making its decision, the Commission concluded that it is feasible to provide service to the area with traditional investor financing as proposed by Frontier, that it would be against state law and policy to allow an expansion fund to be used to serve the area as proposed by Piedmont, that Frontier proposes to construct an extensive rural distribution system that is "far superior to Piedmont's proposal," and that Frontier can provide adequate and reliable service at economically attractive rates.

Further, the Commission concluded that failure to grant a final certificate to Frontier would likely result in no natural gas service being available to the four counties in the foreseeable future because Piedmont's proposal to serve the area is contingent upon use of an expansion fund, and the Commission has concluded that state law does not allow use of an expansion fund in these circumstances.

Frontier first applied for a franchise to provide natural gas service in the area on September 23, 1994. Piedmont filed a competing application on September 27, 1994. The Utilities Commission consolidated the two applications for hearing and held a public hearing in Wilkesboro on December 1, 1994, a six-day hearing in Raleigh beginning January 31, 1995, and a three-day hearing in Raleigh beginning December 12, 1995.

On June 19, 1995, the Commission issued an Order giving Piedmont an option to accept a certificate to serve the area if Piedmont would agree to a shorter construction schedule and use of traditional investor financing, rather than use of an expansion fund to finance part of the project. The Commission concluded that an expansion fund could not legally be used when a reasonable and feasible alternative was available and that Frontier had presented sufficient evidence that its proposal is feasible and that it can successfully and reliably provide service to the four counties. On July 10, 1995, Piedmont refused to change its financing plans and declined the option of a certificate on the conditions required by the Commission.

Following Piedmont's refusal of the certificate offered by the Commission, the Commission

undertook a new evaluation of all the evidence presented by both of the applicants. That review led to an Order issued on July 20, 1995, granting Frontier a conditional certificate. The Commission cited several factors that favor Frontier, including its traditional investor financing, its plans to serve more communities and customers than Piedmont, and its plans to provide service sooner than Piedmont.

Piedmont attempted to appeal the July 20, 1995 Order granting a conditional certificate to Frontier to the North Carolina Court of Appeals. On January 3, 1996, the Court of Appeals dismissed Piedmont's appeal.

The certificate granted to Frontier on July 20, 1995, was subject to certain conditions that required Frontier to file further studies, designs, construction and supply arrangements and proposed rates. The December 1995 hearing focused on whether Frontier had met these conditions. In today's Order, the Commission concluded that Frontier had met the conditions and that the public convenience and necessity require that Frontier be granted a final certificate.

Piedmont moved to dismiss Frontier's latest filing before the Commission on grounds that Frontier had filed a market study that did not support Frontier's original proposal, but instead supported "a substantially new and revised proposal." The Commission found Piedmont's motion to be without merit and denied it. The market study in question was prepared by an independent consultant, and the Commission found that it represents only his opinion as to how Frontier's system would likely evolve. Frontier testified that it still intends to build a more extensive distribution system than that in the independent study and that it intends to build it more quickly. Even if the system evolves according to the independent study, the Commission concluded that it will still provide twice as many miles of distribution lines as Piedmont's proposal and "will make natural gas service available to more citizens and businesses with the attendant opportunities for economic development."

In today's Order, the Commission found that Frontier's proposed rates are economically attractive and that they will provide significant savings over the cost of alternative energy sources in the area. The Commission had previously noted that Piedmont's rates were lower than Frontier's anticipated rates, but the Commission found that this fact was offset by Piedmont's plans to serve fewer customers and communities than Frontier. The Commission stated in the July 20, 1995 Order, "Piedmont's lower rates would, in effect, benefit significantly fewer customers while many more in the Four-County area would be left with no service at all under Piedmont's proposal."

One Commissioner dissented from today's Order.