

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD  
ENDED JUNE 30, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD  
FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File No. 1-935

MOUNTAIN FUEL SUPPLY COMPANY  
(Exact name of registrant as specified in its charter)

STATE OF UTAH  
(State or other jurisdiction of  
incorporation or organization)

87-0155877  
(I.R.S. Employer  
Identification No.)

P.O. Box 45360, 180 East First South, Salt Lake City, Utah 84145-0360  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (801) 534-5555

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 31, 1994
Common Stock, \$2.50 par value	9,189,626 shares

MOUNTAIN FUEL SUPPLY COMPANY  
STATEMENTS OF INCOME  
(Unaudited)

	3 Months Ended		6 Months Ended	
	June 30, 1994	1993	June 30, 1994	1993
	(In Thousands)			
REVENUES	\$54,885	\$71,077	\$203,900	\$249,060
OPERATING EXPENSES				
Natural gas purchases	26,550	37,936	114,579	146,956
Operating and maintenance	23,985	22,366	47,726	45,656
Depreciation	6,168	5,344	12,127	10,913
Other taxes	3,177	2,991	6,687	6,361
TOTAL OPERATING EXPENSES	59,880	68,637	181,119	209,886
OPERATING INCOME (LOSS)	(4,995)	2,440	22,781	39,174

INTEREST AND OTHER INCOME	643	272	1,276	501
DEBT EXPENSE	(3,732)	(3,764)	(7,953)	(7,718)
INCOME (LOSS) BEFORE INCOME TAXES	(8,084)	(1,052)	16,104	31,957
INCOME TAXES (CREDIT)	(4,235)	(3,202)	4,855	9,342
NET INCOME (LOSS)	(\$3,849)	\$2,150	\$11,249	\$22,615

MOUNTAIN FUEL SUPPLY COMPANY  
CONDENSED BALANCE SHEETS  
(Unaudited)

	June 30, 1994	1993	December 31, 1993
	(In Thousands)		
<b>ASSETS</b>			
Current assets			
Cash and short-term investments	\$1,347	\$195	\$2,312
Notes receivable from parent company		7,000	
Accounts receivable	38,622	23,952	81,668
Inventories	18,249	3,910	23,972
Other current assets	4,734	5,805	4,739
Total current assets	62,952	40,862	112,691
Property, plant and equipment	727,672	679,979	710,100
Less allowances for depreciation	278,793	258,406	267,314
Net property, plant and equipment	448,879	421,573	442,786
Other assets	25,211	23,578	25,550
	\$537,042	\$486,013	\$581,027
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Current liabilities			
Notes payable to parent company	\$16,900		\$57,800
Accounts payable and accrued expenses	42,833	\$40,817	64,748
Purchased-gas adjustments	26,106	33,224	25,727
Total current liabilities	85,839	74,041	148,275
Long-term debt	175,000	158,000	158,000
Other liabilities and deferred credits	27,110	1,472	27,163
Deferred income taxes and investment tax credits	58,178	54,693	57,864
Redeemable cumulative preferred stock	7,524	8,726	7,525
Common shareholder's equity			
Common stock	22,974	22,974	22,974
Additional paid-in capital	21,875	21,875	21,875
Retained earnings	138,542	144,232	137,351
Total common shareholder's equity	183,391	189,081	182,200
	\$537,042	\$486,013	\$581,027

MOUNTAIN FUEL SUPPLY COMPANY  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

6 Months Ended  
June 30,  
1994 1993  
(In Thousands)

OPERATING ACTIVITIES		
Net income	\$11,249	\$22,615
Depreciation	13,323	12,022
Deferred income taxes and investment tax credits	314	(5,489)
	24,886	29,148
Change in operating assets and liabilities	27,524	25,455
NET CASH PROVIDED FROM OPERATING ACTIVITIES	52,410	54,603
INVESTING ACTIVITIES		
Capital expenditures	(19,075)	(14,551)
Uses from disposition of property, plant and equipment	(341)	(433)
CASH USED IN INVESTING ACTIVITIES	(19,416)	(14,984)
FINANCING ACTIVITIES		
Issuance of long-term debt	17,000	91,000
Repayment of long-term debt		(99,126)
Redemption of preferred stock	(1)	
Increase in notes receivable from parent company		(7,000)
Decrease in notes payable to parent company	(40,900)	(18,900)
Payment of dividends	(10,058)	(9,360)
CASH USED IN FINANCING ACTIVITIES	(33,959)	(43,386)
DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(\$965)	(\$3,767)

MOUNTAIN FUEL SUPPLY COMPANY  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
June 30, 1994  
(Unaudited)

Note A - Basis of Presentation

The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Due to the seasonal nature of the business, the results of operations for the three-and six-month periods ended June 30, 1994, are not necessarily indicative of the results that may be expected for the year ended December 31, 1994. For further information refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1993.

Note B - Accounting for Postemployment Benefits

Effective January 1, 1994, the Company recorded a liability for postemployment disability and health care benefits in compliance with the Statement of Financial Accounting Standards No. 112. This did not have an effect on net income since the \$1,538,000 liability was offset with a regulatory asset because the Company expects to include these costs in future rates.

Note C - Financing

During the second quarter of 1994, Mountain Fuel issued \$17,000,000 of 30-year notes with a stated interest rate of 8.12%. Mountain Fuel used proceeds from these notes for capital expenditures and operations. On July 1, 1994 Mountain Fuel received a \$20,000,000 capital contribution from its parent company. Proceeds of the capital contribution were used to fund capital expenditures and to repay short-term debt.

MOUNTAIN FUEL SUPPLY COMPANY  
MANAGEMENT'S ANALYSIS

June 30, 1994

Operating Results --

Following is a summary of operating information for the Company:

	3 Months Ended		6 Months Ended	
	June 30, 1994	1993	June 30, 1994	1993
Natural gas volumes (in thousands of decatherms)				
Residential and commercial sales	9,768	14,002	39,906	50,435
Industrial sales	1,692	1,364	3,909	3,102
Transportation for industrial customers	10,020	11,824	23,291	28,838
Total deliveries	21,480	27,190	67,106	82,375
Natural gas revenue (per decatherm)				
Residential and commercial	\$4.55	\$4.42	\$4.54	\$4.52
Industrial sales	2.65	3.08	2.98	3.64
Transportation for industrial customers	0.12	0.12	0.12	0.11
Heating degree days				
Actual	523	950	2,830	4,117
Normal	741	1,040	3,484	4,003
Number of customers at end of period	553,350	532,402		

Natural gas volumes sold to residential and commercial customers decreased in the 3-, 6- and 12-month periods of 1994 as a result of unseasonably warm weather and a change in the method of recording revenues from the retail sale of natural gas. These two factors were also largely responsible for the significantly lower earnings reported in the second quarter and first half of 1994. Temperatures in the first half of 1994 were 19% warmer than normal compared with 3% colder than normal weather in the first half of 1993. The effects of warmer weather and the change in recording revenues was partially offset by a 3.9% increase in the number of customers.

Mountain Fuel's allowed return on equity for Utah operations was reduced from 12.1% to 11% effective January 1, 1994, by the Public Service Commission of Utah (PSCU) in a general rate case order. Also as a result of actions taken by the PSCU, the Company changed the way that revenues for residential and commercial customers are recorded from an "as-billed" to an "as-delivered" basis. This had the effect of shifting approximately \$5 million of net income from the first half of 1994 to the second half, primarily the fourth quarter.

Volumes delivered to industrial customers decreased 15% in the first half of 1994 compared with the same period of 1993. Natural gas demand for electric generation and for use by several major metal and chemical customers was lower during the first half of 1994.

Mountain Fuel's natural gas purchases were lower in the 3-, 6- and 12-month periods of 1994 compared with the same periods of 1993 due to reduced volumes sold to residential and commercial customers. Operating and maintenance expenses were higher in the 1994 periods because of additional customers and expanded service territory.

Interest and other income was higher in the 1994 periods largely due to a working-gas carrying charge earned by the Company as allowed by the PSCU in the last general rate case.

The effective income tax rate was 30.1% in the first half of 1994, compared with 29.2% in the first half of 1993. The Company recognized \$2,049,000 of tight-sands gas-production credits in the first six months of 1994 compared with \$3,299,000 in the 1993 period. The federal income tax rate increased 1% to 35% beginning in the third quarter of 1993.

Effective January 1, 1994, the Company recorded a liability for postemployment disability and health care benefits in compliance with the

Statement of Financial Accounting Standards No. 112. This did not have an effect on net income since the \$1,538,000 liability was offset with a regulatory asset because the Company expects to include these costs in future rates.

#### Liquidity and Capital Resources -

##### Operating Activities:

Net cash provided from operating activities was \$52,410,000 in the first half of 1994 compared with \$54,603,000 for the same period of 1993. The decrease was due to lower net income and was partially offset by increased cash flow from deferred income taxes.

##### Investing Activities:

Capital expenditures were \$19,075,000 in the first six months of 1994, compared with \$14,551,000 in the corresponding 1993 period. Capital expenditures for calendar year 1994 are estimated at \$51,400,000.

##### Financing Activities:

During the second quarter of 1994, Mountain Fuel borrowed \$17,000,000 of 30-year notes with an interest rate of 8.12%. The proceeds were used to fund capital expenditures and operations. On July 1, 1994 Mountain Fuel received a \$20,000,000 capital contribution from its parent company. The Company used the capital contribution to fund capital expenditures and repay short-term debt borrowed from its parent company.

The Company had short-term line-of-credit arrangements with banks totaling \$500,000. In addition, its parent company loans funds to the Company under a short-term borrowing arrangement. As of June 30, 1994, Mountain Fuel had loans outstanding of \$16,900,000 payable to its parent

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings.

a. On June 1, 1994, Mountain Fuel Supply Company (Mountain Fuel or the Company) filed a semi-annual application with the Public Service Commission of Wyoming (the PSCW) under the purchased gas adjustment provisions of the Company's Wyoming tariff. In the application, Mountain Fuel requested authorization to reflect an annualized revenue decrease of \$572,000 in its rates effective July 1, 1994. The PSCW order authorized the Company to reflect the decrease in its rates as of July 1, 1994. The Company cited its growing use of its own production, with cost-of-service prices that are lower than the cost of field-purchased gas, as the primary reason for the decrease.

b. The Company filed a comparable application with the Public Service Commission of Utah (the PSCU) on June 9, 1994. In this application, Mountain Fuel requested authorization to reflect a revenue decrease of \$12,917,000 in its rates effective July 1, 1994. The PSCU, by an interim order, authorized Mountain Fuel to reflect the decrease in its rates as of July 1, 1994, but specified that the case would be held open pending further review of minor issues. A public hearing has been scheduled for August 30, 1994.

c. As of the date of this report, the PSCU has not issued an order with respect to the issues that were raised by Mountain Fuel on rehearing of the PSCU's decision in the Company's 1993 general rate case. The issues under review by the PSCU are the 11.0 percent return on equity authorized for Mountain Fuel and the proper handling of unbilled revenues for ratemaking purposes.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOUNTAIN FUEL SUPPLY COMPANY  
(Registrant)

August 11, 1994  
(Date)

/s/ D. N. Rose  
D. N. Rose  
President and Chief  
Executive Officer

August 11, 1994  
(Date)

/s/ W. F. Edwards  
W. F. Edwards  
Vice President and Chief  
Financial Officer