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Commission grants Intermountain Gas petition for reconsideration of rate case

BOISE (June 16, 2017) – The Idaho Public Utilities Commission has granted Intermountain Gas Company's petition to reconsider aspects of a recent order that led to a slight rate increase.

A petition for reconsideration allows any party to contest a Commission order.

Intermountain Gas's petition stems from a case that was resolved in late April and resulted in a rate increase of 1.58 percent for the approximately 335,000 Idahoans served by the company. The company had requested a 3.7-percent increase.

Its reconsideration petition cited four concerns with the ruling.

Two of those concerns focus on the weather data used to project energy usage, one pertains to the Commission's decision to disallow nearly $1.4 million in expenses that exceeded the five-year average and the fourth concern is related to the Commission's disallowance of $704,000 in non-executive incentive compensation.

The use of weather data had the biggest impact in Intermountain Gas' first rate case before the Commission in more than three decades.

In its order approving a smaller rate increase than the company sought, the Commission found fault with the weather normalization model Intermountain Gas used to forecast its revenue requirements and expenses.

Weather normalization is used to determine how much energy a customer would consume under average weather conditions. Since energy consumption increases when the weather is hotter or colder than the normal climate, weather normalization eliminates these fluctuations and their impact on consumption. This allows utilities to project the amount of energy they need to purchase over long periods, and the revenue required to recover those expenses through rates.

The Commission's order said Intermountain Gas did not provide a reasonable explanation of the methodology used to determine weather normalization, making it impossible to determine whether its model accurately forecasted customer consumption.

“The Company was unable to show that the methodology is reasonable, appropriate and reproducible,” the Commission said.

As a result, the Commission used a model developed for this case. It used nearly 14 years of data and decreased the associated revenue requirement by $2,024,597.

Intermountain Gas objected, saying the Commission’s analysis overstated revenue.

The company said it had used the industry standard, 30-year average of weather and consumption data - the same methodology employed in its last rate case, in 1986. Using data from a shorter timeframe led to a calculation that the average weather year was “significantly colder” than it would have been if 30 years of weather data had been used, the company said.

In the 1986 rate case, however, the Commission encouraged the company to improve its weather normalization model and said that it would reserve its decision on the model’s “appropriateness” until its next rate case.

Intermountain Gas’ reconsideration petition also took issue with the Commission’s decision to disallow $704,000 in incentive compensation for non-executives. The company said the expense was the result of employees meeting goals for net income, cost control and customer satisfaction, but the Commission said the company failed to demonstrate how customers directly benefited from it.

The final issue addressed in Intermountain Gas’ reconsideration petition was the disallowance of $1.38 million in affiliate costs, out of a total of $15.5 million in affiliate costs listed in its initial request for the rate increase.

Affiliate costs are directly or indirectly charged to Intermountain Gas by its affiliates. In this case, most of the $15.5 million in affiliate costs claimed were assessed by Intermountain Gas’ parent company, MDU Resources, in 2016. MDU provides services to Intermountain Gas such as payroll, procurement and administrative services.

The Commission said Intermountain Gas did not meet the higher standard required of utilities seeking recovery for costs assessed by an affiliate. A utility must do more than merely show that such expenses were incurred, the Commission said; it must also prove that expenses between affiliates are reasonable.

Some expenses were deemed reasonable, however, leading the Commission to adopt a five-year average of affiliate costs rather than a single year. The average was $1.38 million less than the requested amount, leading the Commission to disallow that amount.

Intermountain Gas was the only party to petition for reconsideration of the order. Petitions must be filed within 21 days of the date the order was issued.

Once a petition is filed, the Commission has 28 days to issue an order indicating whether it will reconsider parts of the order being contested and, if reconsideration is granted, the way in which the matter will be reconsidered.

In granting Intermountain Gas’ request, the Commission said reconsideration is limited to the four issues addressed in the petition.

The Commission directed company representatives, commission staff and any other interested parties to confer within 14 days to attempt to narrow the issues addressed, discuss settlement opportunities and agree on a schedule.

The Commission has a limited timeframe, dictated by Idaho Code, within which it reconsiders its original findings. Once an order on reconsideration is issued, that decision can be appealed directly to the Idaho Supreme Court.

The commission's order and other documents related to the case can be found at www.puc.idaho.gov. Under the "Natural Gas" heading, click on "Open Cases," and scroll down to Case No. INT-G-16-02.