Office of the Secretary
Service Date
July 22, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR AUTHORITY TO REVISE ITS GENERAL SERVICE PROVISIONS RELATED TO THE INSTALLATION AND EXTENSION OF NATURAL GAS MAINS AND SERVICES	))))))	**CASE NO. INT-G-20-01** **ORDER NO. 34735**

On January 27, 2020, Intermountain Gas Company ("Intermountain" or "Company") applied to the Commission for authority to revise the Company's General Service Provisions related to the installation and extension of natural gas mains and services ("Line Extension Policy").

On February 25, 2020, the Commission issued a notice setting a March 11, 2020 intervention deadline. Order No. 34560. The Commission also suspended the Company's proposed April 1, 2020 effective date for the tariff for 30 days plus 5 months, pursuant to *Idaho Code* § 61-622(4).

Boise City and the Idaho Conservation League ("ICL") filed timely petitions to intervene, and the Commission granted their petitions on March 23, 2020. Order No. 34605.

On April 21, 2020, the Commission issued a Notice of Modified Procedure, setting a June 11, 2020 comment deadline and a June 25, 2020 reply comment deadline. Commission Staff, Boise City, and ICL filed comments. Additionally, the Commission received three public comments. Intermountain filed a timely reply.

Having reviewed the record, we approve Intermountain's Application as discussed below.

BACKGROUND

In the Company's last rate case, Case No. INT-G-16-02, the Commission found it "reasonable and appropriate" for Intermountain to update its line extension tariff to reflect the rate of return approved in the rate case. Order No. 33757. The Commission noted the updated tariff should accurately reflect the degree to which customer contributions associated with line extensions depend on rate of return. Beginning in December 2017, the Company began working closely with Commission Staff to update the line extension tariff in response to Order No. 33757.

THE APPLICATION

In its Application, the Company proposed to replace Section C of its General Service Provisions, and update Section A of its General Service Provisions to refer to Section C. The Company would use an embedded cost methodology approach to calculate the Allowable Investment[1] for residential and commercial line extension projects. Intermountain stated that this method "will help to ensure that the investment in gas facilities for each new customer will be similar to the embedded costs of the same facilities for existing customers that are reflected in the Company's approved base rates." Application at 5. The customer will pay any costs exceeding the Allowable Investment as an upfront Contribution in Aid of Construction ("CIAC").

The Company's Line Extension Policy calculates the Allowable Investment for residential applicants by first calculating the estimated annual therm usage of the customer, then multiplying the estimated annual therm usage by the Allowable Investment Factor[2]. The estimated annual therm usage is calculated using a formula incorporating the square footage of the residential customer's home (if the home is gas heated), and the annual therm usage of the home's gas appliances. *See* Application, Exhibit 2.

To determine the cost to install a service line[3], Intermountain proposed multiplying the on-property service line length by the Service Line Cost per Foot[4]. For a main[5] extension, the project cost "is calculated by estimating the costs of the gas facilities required to serve the gas load of the requesting applicant." Application at 6. Under the proposed tariff, the applicant for a line extension would pay the difference between the Allowable Investment and the Project Cost.

The Company anticipates filing an annual tariff advice to update the Allowable Investment Factors, the Service Line Cost per Foot, and the construction overhead charge.

---

[1] The Allowable Investment is the portion of a line extension that will be rate based by Intermountain.
[2] The Allowable Investment Factor is derived from the Present Value ("PV") of the embedded cost of mains and services in the Company's tariff. The PV calculation uses the Commission-approved Weighted Average Cost of Capital as the discount rate over the life of the plant. Allowable Investment Factors for service lines and mains are included in Section C, Section 4.3 of the Company's proposed tariff.
[3] A service line is an underground gas pipeline and required fittings that extend downstream from a main.
[4] The Service Line Cost per Foot is derived by calculating a three-year average of service line costs divided by the feet installed during the same years. The Service Line Cost per Foot would be updated annually. For 2020, the Company proposes a value of $12.38 per foot. *See* Application, Exhibit 5.
[5] A main is the underground pipeline, and required fittings, used for the distribution of natural gas upstream of service lines. *See* Application, Exhibit 2.

Under the Company's proposed tariff, a customer who paid for a line extension would be eligible for a vested interest refund if additional service points are added to the main within five years of the date of installation. This refund would occur when a service point not used in the original calculation connects to the main extension within a five-year period after the extension. When this occurs, the original applicant or developer would be eligible for a vested interest refund not to exceed the original upfront payment.

The Company proposed refunding applicants who paid a customer advance between May 1, 2017—the effective date of Order No. 33757—and the effective date of the final order in this case. The reason given by the Company for this refund is "the amount of time that has elapsed between the reduction of Intermountain' s [rate of return] in Case No. INT-G-16-02 and the filing of this case." Application at 7. The refunds would be calculated by comparing the original project and the resulting allowable investment to the proposed Allowable Investment calculation method at issue in this case. If the computation shows the customer CIAC paid under the previous tariff was higher than the customer CIAC would have been under the proposed tariff, the customer would be refunded the difference—less any refunds already remitted.

The Company stated the proposed tariff would result in a slightly higher Allowable Investment for projects that include both a main and service extension, due largely to increased costs over time and Intermountain's reduced weighted average cost of capital in Case No. INT-G-16-02. For projects that include only a service extension, the footage that will be allowed without any investment by the customer would be less due to declining customer usage.

Intermountain stated it issued notice of its Application to affected customers during the week of February 3, 2020. The notice was sent to "those developers, builders, and HVAC contractors that may be affected by the proposed changes to inform them of the Company's request." Application at 9.

COMMENTS

Staff Comments

Staff reviewed Intermountain's Application and concluded the proposed Line Extension Policy will be a more simple and equitable policy for customers. Staff recommended the Commission accept the Company's proposed tariff revisions as filed.

Staff noted that the computation of Allowable Investment "is predicated on the notion that new customers should pay the entire cost of infrastructure needed to connect them with the

Company’s distribution system, either through an up-front [CIAC], or through the revenue related to mains and service drops that is embedded in base rates.” Staff Comments at 3. Because Intermountain will not collect the costs of the mains and service lines for years, the Company makes an up-front investment—the Allowable Investment. Staff noted that, in order to determine the embedded line extension costs, Staff and Intermountain developed a “proxy methodology that can be used until a more detailed [Class Cost of Service] model can be developed and presented in a future rate case.” *Id.*

Staff discussed Intermountain’s proposed method for estimating residential gas consumption, which uses a model that incorporates data on gas consumption for space heating on a square-foot basis and consumption data from homes constructed in 2015 through 2016. Staff believed the proposed methodology is acceptable.

Staff agreed with the Company’s proposed vested interest refund. The Company proposed a five-year limit on vested interest payments and plans to review vested interest payments once a year to determine who is eligible for payments. Both practices are designed to reduce the administrative burden on Intermountain. While Staff noted it would prefer vested interest refunds be made as soon as the holder is eligible, Staff believed reducing administrative burden is worthwhile because of the relatively small number of vested interest holders.

The Company revised its Line Extension Policy to make it clearer and shorter, and Staff supported this change. Likewise, Staff agreed with the Company’s plan to update its tariff annually via tariff advice.

Intermountain proposed in its Application to refund customers who paid a customer advance between the effective date of Order No. 33757 and the effective date of this Order. The refund would be the difference between the amount eligible customers paid and what they would have paid under the proposed tariff. Staff acknowledged that Intermountain proposed the refund but noted that a good argument can be made that no refunds need be made because Intermountain was following its line extension policy during this period. On the other hand, “it could also be argued that changes to the existing line extension policy took too long to update and refunds should be made to customers who have paid a higher line extension CIAC since the conclusion of the Company’s last rate case….” Staff Comments at 8. Staff noted that rate base will increase in proportion to the amount of the refunds due to a lower CIAC offset if the Commission does not treat the refunds as a penalty. However, Staff limited itself to these observations and did not recommend the Commission make any particular decision.

Staff audited the Company's calculation of the Allowable Investment and project costs. Staff agreed with the Company's calculations and conclusions. Staff proposed an August 1, 2020 effective date for the Company's Line Extension Policy, citing the Company's need for time to update its software.

Boise City Comments

Boise City noted that the Line Extension Policy's Allowable Investment would be less for service line extensions than it is currently. Boise City inquired how the reduced Allowable Investment would impact residential and commercial construction projects in Boise. Boise City is concerned about how increased cost of construction impacts housing prices and affordability.

Additionally, Boise City inquired how the 11.92% construction overhead was calculated and requested justification of the number. Boise City also inquired why "the 80% efficient furnaces were used in the analysis instead of the 95% efficient furnaces, which would likely be used in new construction resulting from main line and/or service line extensions." Boise City Comments at 3.

ICL Comments

ICL's comments focused on the calculation of the Allowable Investment. First, ICL viewed the proposed Allowable Investment as an unjust subsidization of new customers by current customers. ICL recommended "the Commission direct Intermountain to develop a line extension policy that directly allocates all costs to the requesting customer." ICL Comments at 3.

Second, ICL believed the model used to calculate the Allowable Investment overstates natural gas consumption. ICL argued the homes used in the model meet only the minimum efficiency standard, and do not "factor in any improvements or appliance replacements over time." *Id.* at 2. ICL asserted these assumptions are inconsistent with the assumptions in Intermountain's recent Conservation Potential Assessment. Additionally, ICL believed the model assumes unreasonably high levels of natural gas consumption because the model's homes include a "full suite of gas appliances—heater, water heating, dryer, range, fireplace, and a gas [grill]." *Id.* ICL recommended "the Commission direct Intermountain to assess the actual distribution of appliances in the service territory rather than assume each gas customer will use a full suite of appliances." *Id.*

Third, ICL argued that it was inappropriate to apply the same Allowable Investment calculation across Intermountain's system that includes different climate zones and many building types. ICL recommended the Commission require the Company to "develop a line extension policy that is unique to each location and building type" by using location and building type data provided as part of Intermountain's independent study. *Id.* at 3.

Finally, ICL recommended Intermountain be directed to create a line extension policy that incentivizes customers to build projects that maximize energy efficiency. In particular, ICL argued the line extension policy should include tiered costs based on the size of the service line to encourage customers to limit consumption.

Public Comments

The Commission received public comments on Intermountain's Application from the Rocky Mountain Propane Association ("RMPA"), a Boise-based energy engineer, and a Treasure Valley developer. The comments from RMPA and the energy engineer both argued that new customers should fully pay for line extensions, and that the Allowable Investment should be significantly reduced or eliminated altogether.

On the other hand, the developer argued the line extension policy would burden developers, builders, and (ultimately) future home buyers because the line extension policy reduces the service line footage that will be allowed without any investment by the customer from 196 feet to 34 feet. *See* Application at 9. The developer noted that "affordability of housing suffers from these type of cost increases."

INTERMOUNTAIN'S REPLY

Reply to Staff Comments

Intermountain replied to Staff Comments on several topics. First, Intermountain believed booking the customer refunds as a penalty is unjustified. "Intermountain was following the approved [line extension policy] at the time these projects were completed, and as illustrated throughout [Staff Comments], the Company has made a good faith effort to work through this complex revision with Staff in a timely manner." Company Reply at 2.

Second, Intermountain opposed Staff's recommended effective date for the Line Extension Policy. Staff recommended August 1, 2020, but Intermountain recommended the effective date remain October 1, 2020. *See* Order No. 34560. Intermountain indicated the October 1, 2020 date would be less disruptive because it is at the end of the Company's construction season.

Additionally, the Company explained it has referenced the October 1, 2020 effective date in discussions with customers.

Reply to the Boise City Comments

Intermountain addressed several questions raised by Boise City. *Id.* at 3. Notably, Intermountain explained why the Musgrove study modeled using 80% efficient furnaces instead of 95% efficient furnaces:

> Although the Department of Energy submitted a proposal to raise the minimum efficiency level for furnaces from 80%, that rulemaking has received some challenges and is still making its way through the rulemaking process. There is not yet clear direction on whether the minimum efficiency level will be increased, and, if it is increased, to what level. Therefore, 80% furnaces are still being installed routinely in new construction and are thus appropriately included in Exhibit No. 3.

Id. at 4.

Reply to ICL Comments

Regarding ICL's concerns about the Musgrove study, Intermountain noted that "the Musgrove study is based on the current new construction environment across the Company's service territory" and was "calibrated and validated using actual consumption data from homes constructed during the 2015 and 2016 calendar years." *Id.* Intermountain explained that, contrary to ICL's representations, "the Musgrove study does not assume that customers will build homes to meet minimum code levels or install minimally efficient appliances…." *Id.* The Musgrove study assumes some customers will install minimally efficient appliances while other installations will be more efficient than what is required by code.

Intermountain disputed ICL's assertion that the Musgrove study's model homes unrealistically include a full suite of gas appliances. Intermountain pointed out that "[t]he non-heating appliance gas usage was separated [in the model] from the overall building heating consumption." *Id.* at 5. Separate consumption factors were developed from these separate usages.

Regarding ICL's concern about the use of an Allowable Investment across its system, Intermountain pointed out that the differences in temperature, code, and building practices across its system ended up offsetting each other, "and thus produced results that were similar regardless of location." *Id.* While acknowledging the importance of precision, Intermountain argued that "when simple calculations result in a similar answer to extremely complex calculations, the simpler calculations generally result in a tariff that is easier to explain and understand." *Id.*

Regarding ICL's recommendation that the line extension policy encourage conservation through a tiered cost methodology, Intermountain argued that "its Energy Efficiency program is a better mechanism to encourage customers to consider efficiency improvements than a complicated, punitive line extension policy." *Id.* at 5-6.

Reply to comments regarding equity

Intermountain noted that Boise City's comments and the developer's comments both expressed concern about the increased cost of line extensions under Intermountain's proposal and worried this increased cost would negatively impact housing prices and affordability. On the other hand, the comments of ICL, RMPA, and the energy engineer "raised concerns about the possibility of existing customers subsidizing line extensions to new customers by not imposing *enough* costs on new construction." *Id.* at 6. The Company noted that these conflicting comments highlight how difficult it is to balance the interests of existing and new customers fairly. The Company stated that it has struck a balance between these interests, and that the balance is a fair one.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* § 61-501. The Commission has broad authority to regulate the practices and operations of public utilities and may prescribe rules and regulations. *Idaho Code* §§ 61-501 and 61-507. Intermountain is a Commission-regulated public utility under *Idaho Code* § 61-129 and a gas corporation under *Idaho Code* § 61-117. A public utility's charges, rules, and regulations must be just and reasonable. *Idaho Code* §§ 61-301 and 61-303.

We find the Company's proposed Line Extension Policy is just and reasonable, and that it complies with the spirit (if not the letter) of our directive in Order No. 33757. In our Order, we directed Intermountain to update its line extension tariffs within 90 days of the conclusion of the case to reflect the approved rate of return, but we also directed that the "updated tariff should accurately reflect the extent to which customer contributions associated with line extension depend on the [rate of return]." Order No. 33757 at 39. Intermountain and Staff soon realized that the existing line extension policy—established in the mid-1980s—is outdated, and that it is no longer possible to know for certain what rationales were used in formulating the existing line extension policy. We did not foresee this complication when we gave Intermountain 90 days to update its line extension policy. The Company chose to work closely with Staff to create the Line Extension

Policy before us today, and we find Intermountain and Staff's time was well spent. The proposed Line Extension Policy is more simple and equitable than its predecessor.

We are not persuaded by several commenters' argument that a customer requesting a main or line extension should be required to pay the full cost of the project. A customer's base rate is designed to recover the cost of the distribution system necessary to serve them. Therefore, a new customer forced to pay the full cost of a line extension would overpay for service. This would be unjust. We believe the proposed Line Extension Policy strikes the right balance: ensuring new customers do not overpay for their interconnection, while ensuring CIAC payments for line extensions are large enough to guard against upward pressure on existing customers' rates.

We recognize that since the issuance of Order No. 33757 some of Intermountain's customers have made higher CIAC payments than they would have if the proposed Line Extension Policy had been effective during the same period. The Company proposed refunding these customers the difference between the Allowable Investment under the current line extension policy and the Allowable Investment under the proposed Line Extension Policy. The Commission finds this to be an equitable solution. We direct Intermountain to make these refunds, where appropriate, to customers that paid a CIAC between May 1, 2017 and the effective date of the proposed tariff modifications. Because the Company's delay updating the Line Extension Policy was consistent with the Commission's ultimate aims in Order No. 33757, the refunds should be reflected as a reduction in the CIAC account—not as a penalty.

Intermountain will need time to implement the Line Extension Policy. Therefore, the proposed tariff modifications will take effect on October 1, 2020.

ORDER

IT IS HEREBY ORDERED that Intermountain's proposed changes to its General Service Provisions are approved as filed, effective October 1, 2020.

IT IS FURTHER ORDERED that Intermountain shall file an annual tariff advice to update the Allowable Investment Factors, the Service Line Cost per Foot, and the construction overhead charge. The tariff advice shall be filed each year by October 1, beginning in 2021.

IT IS FURTHER ORDERED that where consistent with this Order, Intermountain shall calculate and issue refunds to customers who paid advances between May 1, 2017 and October 1, 2020.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 22nd day of July, 2020.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Kristine Raper

KRISTINE RAPER, COMMISSIONER

Eric Anderson

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian

Diane M. Hanian
Commission Secretary