

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: MATT HUNTER
DEPUTY ATTORNEY GENERAL

DATE: FEBRUARY 13, 2020

SUBJECT: 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.

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").

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. *Id.* 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

The Company proposes to replace its General Service Provisions Section C and update Section A of the General Service Provisions to refer to Section C. Application at 4. The Company would use an embedded cost methodology approach to calculate the Allowable Investment¹ for residential and commercial Line Extension projects. *Id.* at 5. Intermountain states

¹ The Allowable Investment is the portion of a Line Extension funded by Intermountain.

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.” *Id.* The customer will pay any costs in excess of the Allowable Investment as a customer advance. *Id.*

The Company’s proposed tariff 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 Factor². *Id.* at 6. 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. *Id.* at 5 and Exhibit 2.

To calculate the cost to install a Service Line³, Intermountain proposes multiplying the on-property Service Line length by the Service Line Cost per Foot⁴. Application at 6 and Exhibit 2. For a Main⁵ 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 pays the difference between the Allowable Investment and the Project Cost. *Id.* at 7.

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

Under the Company’s proposal, a customer who paid for a Line Extension would be eligible for a vested interest refund if additional service points are added to the project within five years of the date of installation. *Id.* This 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. *Id.* When this occurs, the original applicant or developer would be eligible for a vested interest refund not to exceed the original upfront payment. *Id.*

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 and Main 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, or branches from an existing Service Line to the location of the meter.

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. *See* Application, Exhibit 5.

⁵ Main is the underground pipeline, and required fittings, used for the distribution of natural gas upstream of Service Lines. *See* Application, Exhibit 2.

The Company proposes refunding applicants who paid a customer advance between the May 1, 2017 effective date of Order No. 33757 and the effective date of the final order in this case. Application at 7. 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.” *Id.* 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. *Id.* If the comparison shows the customer advance paid under the previous tariff was higher than the customer advance would have been under the proposed tariff, the customer would be refunded the difference—less any refunds already remitted. *Id.*

The Company states 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. *Id.* at 8. For projects that include only a service extension, the footage that will be allowed without any investment by the customer is less due to declining customer usage. *Id.*

Intermountain states it will issue notice of the Application to its affected customers during the week of February 3, 2020. Application at 9. The notice letter will be sent to “those developers, builders, and HVAC contractors that may be affected by the proposed changes to inform them of the Company’s request.” *Id.*

The Company requests an effective date of April 1, 2020 for its proposed tariff, and requests that its Application be processed under Modified Procedure. *Id.*

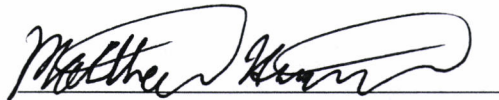
STAFF RECOMMENDATION

Staff notes the proposed Line Extension tariff differs significantly from the tariff currently in effect. In order to give interested persons an opportunity to intervene in the case, Staff recommends the Commission issue a Notice of Application and a Notice of Intervention Deadline—setting a March 11, 2020 deadline to intervene.

Relatedly, Staff recommends suspending the proposed effective date for the tariff. An April 1, 2020 effective date does not provide enough time for Staff and the public to review and comment on the Company’s proposal. Also, the Company indicated in its Application that it would need time to update its computer system if the Commission approves the proposed tariff. Application at 9. Therefore, Staff recommends suspending the proposed effective date for the tariff for 30 days plus five months, under *Idaho Code* § 61-622.

COMMISSION DECISION

1. Does the Commission wish to issue a Notice of Application and a Notice of Intervention Deadline—setting a March 11, 2020 deadline to intervene?
2. Does the Commission wish to suspend Intermountain’s proposed effective date of April 1, 2020 for the tariff for a period of 30 days plus five months, under *Idaho Code* § 61-622?



Matt Hunter
Deputy Attorney General

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