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May 4, 2020

Ms. Diane Hanian  
Commission Secretary  
Idaho Public Utilities Commission  
P.O. Box 83720  
Boise, ID 83720-0074

RE: Case No. INT-G-20-03

Dear Ms. Hanian:

Attached for consideration by this Commission is an electronic submission of Intermountain Gas Company's Application for Authority to Facilitate Renewable Natural Gas Access.

If you should have any questions regarding the attached, please don't hesitate to contact me at (208) 377-6015.

Sincerely,

Lori A. Blattner  
Director, Regulatory Affairs  
Intermountain Gas Company

Enclosure

cc: Mark Chiles  
Preston Carter

**INTERMOUNTAIN GAS COMPANY**

**CASE NO. INT-G-20-03**

**APPLICATION**

**AND**

**EXHIBITS**

**In the Matter of the Application of INTERMOUNTAIN GAS COMPANY  
for Authority to Facilitate Renewable Natural Gas Access**

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*Attorneys for Intermountain Gas Company*

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of  
INTERMOUNTAIN GAS COMPANY  
for Authority to Facilitate Renewable  
Natural Gas Access

**Case No. INT-G-20-03**

**APPLICATION**

Intermountain Gas Company (“Intermountain” or “Company”), a subsidiary of MDU Resources Group, Inc. with general offices located at 555 South Cole Road, Boise, Idaho, pursuant to the Rules of Procedure of the Idaho Public Utilities Commission (“Commission”), requests authority, pursuant to Idaho Code Sections 61-307 and 61-622, to facilitate access by Renewable Natural Gas (“RNG”) producers to Intermountain’s distribution system for the purpose of moving RNG to the producer’s end use customer.

Please address communications regarding this Application to:

Lori A. Blattner  
Director – Regulatory Affairs  
Intermountain Gas Company  
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Boise, Idaho 83707  
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and

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In support of this Application, Intermountain alleges and states as follows:

## I. INTRODUCTION

Intermountain is a gas utility, subject to the jurisdiction of the Commission, engaged in the sale of and distribution of natural gas within the State of Idaho under authority of Commission Certificate No. 219, issued December 2, 1955, as amended and supplemented by Order No. 6564, dated October 3, 1962.

Intermountain provides natural gas service to the following Idaho communities and counties and adjoining areas:

Ada County - Boise, Eagle, Garden City, Kuna, Meridian, and Star;  
Bannock County - Arimo, Chubbuck, Inkom, Lava Hot Springs, McCammon, and Pocatello;  
Bear Lake County - Georgetown, and Montpelier;  
Bingham County - Aberdeen, Basalt, Blackfoot, Firth, Fort Hall, Moreland/Riverside, and Shelley;  
Blaine County - Bellevue, Hailey, Ketchum, and Sun Valley;  
Bonneville County - Ammon, Idaho Falls, Iona, and Ucon;  
Canyon County - Caldwell, Greenleaf, Middleton, Nampa, Parma, and Wilder;  
Caribou County - Bancroft, Grace, and Soda Springs;  
Cassia County - Burley, Declo, Malta, and Raft River;  
Elmore County - Glenns Ferry, Hammett, and Mountain Home;  
Fremont County - Parker, and St. Anthony;  
Gem County - Emmett;  
Gooding County - Bliss, Gooding, and Wendell;  
Jefferson County - Lewisville, Menan, Rigby, and Ririe;  
Jerome County - Jerome;  
Lincoln County - Shoshone;  
Madison County - Rexburg, and Sugar City;  
Minidoka County - Heyburn, Paul, and Rupert;  
Owyhee County - Bruneau, Marsing, and Homedale;  
Payette County - Fruitland, New Plymouth, and Payette;  
Power County - American Falls;  
Twin Falls County - Buhl, Filer, Hansen, Kimberly, Murtaugh, and Twin Falls;  
Washington County - Weiser.

Intermountain's properties in these locations consist of transmission pipelines, liquefied natural gas storage facilities, a compressor station, distribution mains, services, meters and regulators, and general plant and equipment.

## **II. BACKGROUND**

Renewable Natural Gas is the term used to describe pipeline-quality biomethane produced from biomass. Common sources of biomass used in the production of RNG are livestock operations, landfills, and wastewater treatment facilities. It is interchangeable with natural gas, carbon neutral, and fully compatible with the U.S. pipeline infrastructure. It can be used in homes and businesses, in manufacturing and heavy industries, for electricity production, and as an alternative fuel for transportation.

From a greenhouse gas emissions perspective, RNG has the potential to provide impressive benefits. RNG production captures methane from animal waste and other biomass sources that otherwise would have directly entered Earth's atmosphere. When it is eventually combusted, the RNG releases significantly fewer greenhouse gas emissions than the total that otherwise would have entered the atmosphere.

RNG also has the potential to provide a valuable new revenue stream for Idaho farmers. It may allow livestock operations to convert waste into a beneficial supplementary revenue source. The Idaho Department of Agriculture reports that Idaho is the fourth largest milk producing state in the nation. With the large number of dairies, the state has seen significant activity around dairy RNG projects over the past year. As neighboring states implement or look to implement policies that encourage or mandate the use of renewable sources of energy, including RNG, Idaho is in a prime location with the necessary biomass to produce and transport a significant amount of RNG to these markets.

The methane produced by RNG projects is expensive, however. When compared to traditional natural gas, the cost of RNG over the past two years has been anywhere from three to ten times more per therm. Government policies and programs in other states that provide generous

subsidies or mandate the use of renewable energy sources provide the additional revenues that make RNG projects profitable today. As the emerging RNG industry continues to evolve, production costs may fall to levels that make RNG more competitive with traditional natural gas. In the interim, however, there is significant risk inherent in the RNG industry.

Intermountain proposes to help facilitate the growth and development of the emerging RNG industry across its service territory. The Company will do this by providing natural gas as necessary to operate RNG production facilities and/or by providing access to its distribution system to allow the producer to move RNG to their end use customer.

Because of the risky nature of this industry, Intermountain proposes to completely insulate utility customers from all potential impacts of RNG production.

### **III. TRADITIONAL NATURAL GAS SERVICE**

Gas delivered to an RNG producer to operate their facilities will be billed at Intermountain's standard tariffed rates. A standard customer agreement will be executed with the RNG producer. All monthly billing will happen exactly as it would for any other Intermountain customer based upon the tariff selected.

### **IV. RNG ACCESS SERVICE**

On the produced RNG, Intermountain proposes a monthly fee that would allow the RNG producer to access Intermountain's distribution system and move the RNG to their end use customer. The fee would consist of two components: a Maintenance Fee and an Access Fee. The agreements would also include a clause to cover Startup and Extraordinary O&M expenses.

Maintenance Fee. The Maintenance Fee would cover the expenses incurred by Intermountain to provide service to RNG producers on a monthly basis. Anticipated expenses include items such as a) labor for inspection of meters, regulators, reliefs, odorizers, valves, etc., b)

odorant, c) gas chromatograph, including calibration gas and helium, d) SCADA equipment, e) other utility costs which may include electricity and telephone, f) direct general administrative costs, g) direct contractor costs, h) an overhead loading rate, i) material replacement costs, j) such other costs as may be necessary to provide service. At this time, it is anticipated that the monthly Maintenance Fee will be set at \$2,500 based on the current average of monthly costs.

Access Fee. The Access Fee will be recorded as non-utility revenue for Intermountain. This component of the fee provides a return to the Company for granting access to its distribution facilities and for bearing all the financial risk associated with providing pipeline access to the RNG projects.

Startup and Extraordinary O&M Expenses. In the event of startup O&M expenses or other out of the ordinary O&M expense at an RNG production facility, the producer will be billed for the actual additional expenses incurred by Intermountain. This protects other RNG producers from being required to share in higher startup costs or other extraordinary expenses incurred by a specific producer.

## **V. COMMISSION FEES**

For the purposes of computing Intermountain's proportionate assessment of Commission Fees, all revenues from the RNG Access Service will be included in Intermountain's gross operating revenues.

## **VI. ANNUAL MAINTENANCE FEE UPDATE**

The monthly Maintenance Fee will be updated on an annual basis by Intermountain. The expense incurred to provide RNG Access will change over time. Adjusting the monthly fee annually will ensure it accurately reflects the true cost of providing service to RNG producers. Intermountain will calculate the new fee each September based on actual expenses for the September 1<sup>st</sup> through

August 31<sup>st</sup> time period. The new fee will take effect October 1<sup>st</sup> of each year to align it with Intermountain's PGA price changes.

The annual update will consist of two parts: 1) an update to the monthly Maintenance Fee, 2) a Maintenance Fee Adjustment.

Maintenance Fee Update. Actual RNG expenses will be separately tracked and booked as a non-utility expense into an RNG business unit. The actual RNG expenses for the previous 12-month period will be used to compute a new monthly fee that reflects the actual expenses incurred over the previous year. Intermountain will sum all the actual expenses from September 1<sup>st</sup> through August 31<sup>st</sup> and divide the total by 12. The result will be the Maintenance Fee for the new year beginning on October 1<sup>st</sup>.

Maintenance Fee Adjustment. Intermountain will also review the actual expenses incurred to serve RNG producers compared to the revenue generated by the monthly Maintenance Fee for the same 12-month period. The difference between revenue and expenses will be the Adjustment Balance. The Adjustment Balance will be divided by 12 to arrive at the Maintenance Fee Adjustment.

The monthly Maintenance Fee Adjustment will be added to or subtracted from the new monthly Maintenance Fee to arrive at the Maintenance Fee to be charged to each RNG producer for the 12-months starting on October 1<sup>st</sup> each year.

## **VII. UTILITY CUSTOMER FINANCIAL IMPACT PROTECTION**

Utility customers will not be impacted by the service extended to RNG producers. RNG producers will pay for all startup costs associated with RNG Access projects such as permitting, engineering drawings, specifications, surveying, and property research. The producer will also pay for the cost of all Access related infrastructure and facilities upfront. All capital costs related to an

RNG production project will be included in ratebase, but then exactly offset with a Contribution In Aid of Construction (“CIAC”) payment from the RNG producer.

Furthermore, additional monthly expenses incurred by Intermountain to provide on-going service to RNG producers will be recovered in the monthly Maintenance Fee described above.

Intermountain’s shareholders will assume all financial risks of providing access to the Company’s system for RNG producers.

### **VIII. INCOME TAX GROSS UP**

Under Commission Order No. 21933, Intermountain is not permitted to gross up CIACs to cover the additional income tax generated by the CIAC payment. Instead, Intermountain adds the income tax paid to ratebase where it is charged to ratepayers over time. While this method makes sense for plant that is used by utility customers, in the case of RNG projects, this process would result in a negative financial impact to customers. To ensure there is no financial impact to utility customers from the RNG projects, Intermountain proposes the RNG projects be grossed up to account for the additional income tax the CIAC revenue from RNG projects will incur. The income tax gross up would be booked as utility revenue to offset the additional income taxes and ensure zero financial impact on utility customers.

### **IX. SYSTEM SAFETY PROTECTION**

All RNG agreements will include safety provisions to protect the safety and reliability of service for utility customers. Safety requirements will include: a) minimum/maximum daily and hourly flow, b) minimum/maximum delivery pressure, operating pressure, and maximum allowable operating pressure, c) required installation of regulation, odorization, pressure relief, control valve equipment, and a gas chromatography system, d) biomethane quality specifications, e) required gas quality testing and monitoring, f) any other provisions Intermountain may deem necessary to protect

the safety and reliability of its system. A clause will also be incorporated in the agreements to specify that Intermountain will not be under any obligation to take the gas produced by an RNG facility if the Company's distribution system is at maximum capacity.

#### **X. EXISTING PRODUCERS**

The RNG industry has been rapidly evolving over the past year, and Intermountain has been working with producers to help facilitate the development of the industry. As part of that involvement, Intermountain has executed contracts with three RNG producers to facilitate access to Intermountain's system. Although the contracts are similar to the proposal outlined in this filing, there are some differences in all the contracts. Intermountain plans to honor the three existing contracts that have been executed while also negotiating with those same producers to bring the existing contracts into alignment with the RNG facilitation plan that is ultimately approved by this Commission. Any contracts executed subsequent to a Commission Order will follow the terms outlined in the RNG facilitation plan approved by this Commission.

#### **XI. CUSTOMER NOTICE**

The Company will issue notice of this Application to its affected customers. During the week of May 4, 2020 Intermountain will send a letter to the RNG producers that may be affected by the proposed changes to inform them of the Company's request. A copy of the letter is attached and incorporated by reference.

#### **XII. MODIFIED PROCEDURE**

Intermountain requests that this matter be handled under modified procedure pursuant to Rules 201-204 of the Commission's Rules of Procedure. Intermountain stands ready for immediate consideration of this matter.

### XIII. REQUEST FOR RELIEF

Intermountain respectfully petitions the Idaho Public Utilities Commission as follows:

- a. That the proposed authority to facilitate Renewable Natural Gas Access as described herein be approved without suspension and made effective no later than June 15, 2020,
  - b. That the Company be allowed to gross up CIAC payments as described above,
  - c. That this Application be heard and acted upon without hearing under modified procedure,
- and
- d. For such other relief as this Commission may determine proper.

DATED: May 4, 2020.

INTERMOUNTAIN GAS COMPANY

GIVENS PURSLEY LLP

By



Lori A. Blattner  
Director – Regulatory Affairs

By



Preston N. Carter  
Attorney for Intermountain Gas Company