Office of the Secretary
Service Date
February 4, 2003

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY TO INCREASE ITS COMPOSITE DEPRECIATION RATE.	)))))	**CASE NO. INT-G-02-4** **ORDER NO. 29187**

Intermountain Gas Company (Intermountain; Company) filed an Application on October 18, 2002 requesting authority to increase its composite depreciation rate from 3.71% (3.93% when weighted by 9/30/01 assets) to 4.08%. The Company stated that this 0.15% increase was necessary in order to accrue the proper dollars over the remaining service life of the Company's property. Application at 6. If approved, the higher rate would increase Intermountain's annual depreciation accrual and decrease Intermountain's rate base by $428,482 annually. *Id.* at 4. The Commission issued Notices of Application and Modified Procedure in this case on November 15, 2002. Order No. 29153. The Commission Staff was the only party to timely file comments, to which the Company replied on January 15, 2003. In this Order, the Commission authorizes Intermountain to use an overall depreciation rate of 3.93% and increase its annual depreciation expense by $3,784 effective October 1, 2002.

THE APPLICATION

Based on an updated depreciation study by AUS Consultants, the Company's Application concluded that the current rate is under-depreciating its assets, the original cost of which increased from $234,093,752 to $280,990,082 during the three-year period. Application at 6. Likewise, the accumulated reserve increased from $116,479,251 to $143,992,182. *Id.* The current study advocated an annual depreciation and amortization expense accrual of $11,462,932 for the remaining life of the Company's property. *Id.* The study cited by the Application also discussed Intermountain's planned deployment of electronic meter reading equipment and the recovery of the associated investment, as well as the service life and estimated removal cost of the Company's LNG facilities. Although the Company's depreciation expense would increase under its proposal, the present Application did not request a related increase in customer rates. The Company also requested that the increase to the annual composite depreciation rate and amortizations be made effective at the beginning of the Company's fiscal year, October 1, 2002. *Id.*

STAFF COMMENTS

According to Staff, the majority of Intermountain's requested depreciation rate increase consisted of three items: an extended service life for the Liquefied Natural Gas (LNG) plant in Nampa, an increase in the negative salvage cost accumulated to retire transmission and distribution mains, and implementation of an electronic meter reading system (ERT) requiring new accounts and depreciation rates. These items are discussed in greater detail below.

During its review of the depreciation study and workpapers, Staff encountered a problem with the Company's accounting data used to substantiate the study. Staff's comments were prefaced with the caveat that the misallocated dollars associated with problematic accounting data were significant and would have made a major impact on the results of the study. Staff Comments at 2.

Account No. 363 - The LNG Plant

The Company proposed extending the service life of the LNG plant by five years to approximately 35 years, making the remaining life of the plant approximately 10 years. The Company based its support for a 35-year useful life on information obtained from a study conducted by the American Gas Association (AGA study),[1] not by any defect or limitation within the facility itself.

By contrast, Staff recommended a remaining life of 15 years instead of only 10 because the Company had already or plans to overhaul major plant components and has no plans to replace the facility. *Id.* at 3. Staff also argued that the AGA study contained facilities with 40 and 50-year lives. Staff believed that a 40-year life was reasonable in this case, especially since the Company will perform another depreciation study in 3 years. For these reasons, Staff recommended that the Company depreciate the LNG plant over another 15 years for an approximate average service life of 37 years. This would require an annual depreciation rate of

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[1] A Survey of Depreciation Statistics, AGA Accounting Services Committee, EEI Property Accounting & Valuation Committee, 1998-1999.

1.29% instead of the Company-proposed rate of 1.69%, and would reduce the Company's proposed annual depreciation expense by $30,658.[2] *Id.*

Account No. 367 – Transmission Mains

Depreciation on the Company's transmission mains, which are used to transport the gas between the Company's distribution system and the Northwest Pipeline interstate system, is currently calculated based on a 44-year life and a 32% negative salvage cost. The Company sought to change the life of one particular transmission main running through the Fort Hall Indian Reservation from 44 years to 20 years. Although this main has an estimated useful life of 44 years, the easement across the reservation is limited to 20 years and ends approximately in 2015. *Id.* at 4. By that time, the Company will need to renegotiate the easement and may not be able to secure future use of the transmission line.

Staff found it reasonable to depreciate this main faster than the rest of the account and monitor the situation carefully over the 12 years remaining on the easement. By reducing the life of the main that runs through the reservation to a point mid-way between the expected life of 44 years and the easement's life of 20 years, Staff believed that additional depreciation can be taken until the uncertainty surrounding the life of the easement can more fully be determined. Staff recommended that a life of 32 years be used on the line through the reservation such that the weighted average life of the total account is approximately 40 years. *Id.*

Staff indicated that transmission mains have experienced an overall net negative salvage value of only 6.9%. *Id.* However, during the last few years retirement costs have been higher, resulting in greater negative net salvage. Although the account has experienced negative salvage costs of 185% or more since 1992, Staff indicated that only 0.000% to 0.056% of the account has been retired annually because only a few projects were undertaken in each of the last 5 years. *Id.* Staff believes it is not reasonable to extrapolate a significant increase in negative salvage costs based on such a small number of retirements, some of which were atypical. Thus, Staff recommended that the salvage costs remain at negative 32% until the Company improves its accounting controls to correctly track retirement costs and shows that an increase is necessary. *Id.* at 5.

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[2] The rate currently authorized for the LNG facility is 1.10%. Staff's proposal would allow the Company to accrue an additional $14,563 each year.

By making these two changes, Staff recommended an annual rate of 2.96% instead of the Company's proposed 4.26%, thus reducing Company's proposed depreciation expense in this account by $394,040.[3] *Id.*

Account No. 376 – Distribution Mains

The Company recommended increasing the service life of its distribution mains slightly from 42 years to 44. Staff supported extending the service life because 44 years seems to better reflect the 40 to 65 year lives listed in the AGA study. *Id.*

Staff also recommended that the Commission adopt the Company's request to change the depreciation rate from 3.60% to 4.02%. *Id.* at 6. While overall net salvage values from 1975 through 2001 have been at negative 41%, negative salvage value from 1992 through 2001 was 56% and increased to 71% in the last 5 years. *Id.* at 5. Currently the Company uses a negative salvage value of 40% and recommends a change to 60%. Staff supported this change because: 1) the Company consistently had a significant number of retirements in this account that evened out the wide ranges of amounts seen in the transmission mains account, 2) this current depreciation study substantiated findings in the last study that the negative salvage cost for this account was increasing, and 3) AGA study data suggested that a 60% negative salvage cost was in line with other utilities. *Id.*

Account No. 381.2 – Electronic Meter Reading Equipment and
Account No. 382.2 – Electronic Meter Reading Equipment Installation Labor

Intermountain Gas is currently implementing an automated/remote system that uses electronic devices to record and transmit the customer's usage to a radio-receiving device. The ERT device consists of a circuit board with a semiconductor chip radio transmitter and a lithium battery. Staff stated that this device has a battery life of approximately 15-19 years and has little or no value once the battery has been depleted. *Id.* at 6. Since the life of the device is approximately 15 years, both Staff and the Company recommended that the life of the equipment be rated at 15 years and depreciated at a rate of 6.63%. *Id.*

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[3] The rate presently authorized for the transmission mains account is 3.57%. Staff's proposal would reduce the amount the Company accrues by $184,896 each year.

COMPANY REPLY COMMENTS

Filed on January 15, 2003, Intermountain Gas Company's reply comments explained that the purpose of the Company s Application was to update the depreciation parameters and rates established in Case No. INT-G-99-2. Reply Comments at 1. Intermountain maintained that the depreciation rates proposed in the Application were appropriate to recover its investment in plant in service, adjusted for net salvage, over its' useful life. *Id.*

While the Company believes that its proposed depreciation parameters were supported by the depreciation study, the Company also acknowledged the concerns raised by the Staff in their comments. Intermountain stated that the next study filed in three years will "shore up many of the parameters filed with this Case" and provide Staff with an added measure of confidence in the Company s recommendations. *Id.* Therefore, Intermountain suggested that the Commission adopt the changes as proposed by the Staff. *Id.*

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case No. INT-G-02-4, including the comments of Commission Staff and the reply comments of Intermountain Gas.

We continue to find it reasonable in this case to process the Company's Application pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Commission Rules of Procedure, IDAPA 31.01.01.201-204.

Staff proposed three adjustments to the Company's filing. As described in greater detail above, Staff first proposed that the LNG plant be given a remaining life of 15 years instead of 10 in light of completed or planned plant upgrades. Citing the uncertainty surrounding renewal of the transmission line lease on the Fort Hall Reservation, Staff advocated reducing the 44-year asset life of that particular transmission line to a midpoint of 32 years rather than the 20-year easement term. Instead of adopting the 50% negative salvage rate proposed by the Company, Staff recommended that Account 367's negative salvage remain unchanged until the Company better tracks asset retirement costs and demonstrates that an increase is necessary. The Company appears to agree with Staff's recommendations and suggested in its reply comments that we adopt them. Reply Comments at 1. Because we find Staff's rationale for these three changes to be persuasive and reasonable, we approve the Company's Application subject to them.

With these changes, we find it reasonable to reduce the Company's requested increase in depreciation expense from $428,482 to $3,784 per year. This shall result in an overall depreciation rate of 3.93% and a total annual depreciation expense of $11,038,234. The new depreciation rates shall be effective at the beginning of Intermountain's fiscal year, October 1, 2002.

As the Commission has stated in past depreciation cases, we recognize that there is an element of judgment and discretion in choosing an asset life or salvage rate for regulatory accounting purposes. Our depreciation review process is the appropriate time to consider and make adjustments to reflect changed service lives or salvage rates of depreciation assets. Order No. 28311 at 5. As we have done in past years, we intend to review the Company's depreciation rates and practices again in three years to ensure that Intermountain's depreciation rates, salvage rates and service lives remain accurate in the long term. This periodic review increases our level of comfort with the reasonableness of the depreciation rates recommended by the Company and Staff, and is required for the Company's depreciation study methodology. Order No. 26813. We therefore direct the Company to remedy its accounting problems and update its depreciation study for submission to the Commission in three years.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over this matter and Intermountain Gas Company, a gas utility, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

ORDER

IT IS HEREBY ORDERED and Intermountain Gas Company is authorized to increase its depreciation expense by $3,784 per year. This shall result in an overall depreciation rate of 3.93% and a total annual depreciation expense of $11,038,234.

IT IS FURTHER ORDERED that the asset remaining life for the LNG Plant (Account 363) be increased to approximately 15 years and the rate of depreciation be changed to a weighted average of 1.29% to conform with the increased asset life.

IT IS FURTHER ORDERED that the negative salvage rate of 32% for Account 367 remain unchanged.

IT IS FURTHER ORDERED that the life of the transmission line through the Fort Hall Indian Reservation (Account 367) be reduced to 32 years for a weighted average rate of 2.96% to conform with the decreased service life.

Because we have required some changes in asset lives, IT IS FURTHER ORDERED the Company shall calculate and submit a new Summary of Depreciation Accrual Parameters and Expenses in accordance with this Order. These rates are for account balances effective the beginning of the Company's current fiscal year, October 1, 2002.

IT IS FURTHER ORDERED that the Company submit an updated depreciation study for Commission review in three years.

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. 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 31st day of January 2003.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

Dennis S. Hansen

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean Jewell
Commission Secretary

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