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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO INCREASE ITS COMPOSITE DEPRECIATION RATE.	**CASE NO. INT-G-02-4** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure, and Notice of Comment/Protest Deadline issued on November 15, 2002, Order No. 29153, submits the following comments.

Intermountain Gas Company (Intermountain; Company) filed an Application with the Commission 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 is necessary to accrue the proper dollars over the remaining service life of the Company's property. Intermountain requests the rate become effective the beginning of its fiscal year, October 1, 2002. If approved, the higher rate would increase Intermountain's annual depreciation accrual and decrease Intermountain's rate base by $428,482 annually. Although the Company's depreciation expense would increase under its proposal, the present Application did not request a related increase in customer rates.

STAFF ANALYSIS

Staff has reviewed the Company's Application and performed an analysis on the requested increase in depreciation rates. The majority of the increase consists of three items. First, the Company seeks to extend the service life of the Liquefied Natural Gas (LNG) plant in Nampa. The Company recently updated some of the equipment and plans future updates as needed. Second, the Company requested an increase in the negative salvage cost accumulated to retire transmission and distribution mains due to increased costs at retirement. Finally, the Company is implementing an electronic meter reading system (ERT) that will require new accounts and new depreciation rates.

Staff conducted its review by analyzing the depreciation study and workpapers prepared by AUS Consultants, the Company's depreciation consultant. The study is based on the Company's accounting records and other external sources. During its review, Staff encountered a problem with the accounting data used to substantiate the Company's study. The Company upgraded its accounting software in 2000, which caused problems with the way some of the asset retirements were recorded. Staff found instances where the Company recorded salvage costs for assets that were either not removed from the books or were removed from the wrong accounts. After further review with Staff, the Company also discovered an additional $105,000 that should have been added to the total salvage costs but were not. These dollars are significant and would have made a major impact on the results of the study. The Company has indicated that it is working to improve the accounting system.

Staff also reviewed a study performed by the American Gas Association (AGA study)[1] that was used by AUS Consultants to help provide guidelines in setting the useful lives and salvage values of the Company's assets. The AGA study provided some valuable insight into the salvage costs and useful lives of gas distribution equipment.

Account No. 363 - The LNG Plant

The LNG plant has been in service since 1976. The Company proposed to extend the life of the facility 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 life on information obtained from the AGA study, not by any defect or limitation within the facility itself.

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

Staff believes it is reasonable to extend the life of the LNG plant an additional five years beyond the ten years proposed by the Company. Thus, Staff recommends a remaining life of 15 years instead of only ten. This is appropriate for several reasons. First, the Company overhauled the primary compressor associated with the liquefaction process in 2000. It also removed the gas turbine prime mover for overhaul next year. Second, the Company stated that the LNG facility's controls, which are electrical and pneumatic, would be replaced with electronic and hydraulic controls between 2004 and 2006. Third, the Company has no plans to replace the LNG facility with any other type of equipment or contract. In a discussion with Company officials, Staff learned that acquiring peaking services providing benefits similar to those derived from the LNG facility would be significantly more expensive than maintaining the current unit. Furthermore, the Company's 2002 IRP did not indicate a replacement of the facility. The Company continues to update the unit as needed, including making significant overhauls of its major parts. Finally, while the AGA study lists equipment similar to the equipment recently replaced or proposed to be updated (compressors, connections, gauges and instruments, etc.) with lives in the 25-30 year range, it also contains facilities with 40 and 50-year lives. Staff believes that a 40-year life is reasonable in this case, especially since the Company will perform another depreciation study in three years.

Staff recommends that the Company depreciate the LNG plant over another fifteen years for an approximate average service life of 37 years. This requires an annual depreciation rate of 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]

Account No. 367 – Transmission Mains

Transmission mains are large steel pipes used to transport the gas between the Company's distribution system and the Northwest Pipeline interstate system. These mains generally have long lives and are simply capped instead of being removed at retirement. Currently, depreciation on the Company's transmission mains is calculated based on a 44-year life and a 32% negative salvage cost.

The Company proposed to change the life of one particular transmission main from 44 years to 20 years. The main in question runs through the Fort Hall Indian Reservation.

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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.

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. By that time, the Company will need to renegotiate the easement and may not be able to secure future use of the transmission line. The Company recommended that the useful life of the transmission main be reduced to only 20 years instead of 44. Staff believes it is reasonable to base the life of an asset on its known useful life. Although the Company currently believes there is a good chance it will not be able to renew its easement, the Company has provided no evidence in support of that belief. The other party has not indicated whether or not it will renew the easement. Since approximately 12 years remain on the easement, the Commission has time to adjust the account if necessary as more information becomes available. However, because there is some uncertainty, Staff believes it is reasonable to depreciate this main faster than the rest of the account and monitor the situation carefully. 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 believes that additional depreciation can be taken until the uncertainty surrounding the life of the easement can more fully be determined. Staff recommends that a life of 32 years be used on the portion in question. By using a 32-year life on the line through the reservation, the weighted average life of the total account is approximately 40 years.

Overall, transmission mains have experienced a net negative salvage value of only 6.9%. However, during the last few years retirement costs have been higher, resulting in greater negative net salvage. Since 1992, the account has experienced negative salvage costs of 185%. The last few years have been even higher.

While these numbers seem high, it is important to keep a few things in mind. First, very little plant has been retired in this account. During the last five years, only 0.000% to 0.056% of the account has been retired each year. Typically there were only a few projects undertaken each year. Staff believes it is not reasonable to extrapolate a significant increase in negative salvage costs based on such a small number of retirements. Second, some of the retirements were expensive projects that were not typical. Third, the AGA study provided no information on transmission mains. Therefore, Staff could not use the AGA study for support. Finally, the poor accounting records cast a shadow over the integrity of the Company's study. The Company needs to improve the accounting controls to make sure that retirements are performed correctly and have additional transactions take place before Staff believes it is reasonable to change the depreciation rates in this account.

Staff recommends that the Commission adopt the Company's proposal to leave the lives of the transmission distribution account at 44 years except for the portion of the main that runs through the reservation. This section should be depreciated based on a 32-year life until more information can be gathered. Staff also recommends that the salvage costs remain at negative 32% until the Company can correctly track retirement costs and show that an increase is necessary. By making these two changes, Staff recommends 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]

Account No. 376 – Distribution Mains

Distribution mains are steel or plastic pipes used to take gas from transmission mains to the distribution system that delivers gas to individual customers. These lines also have long lives that allow them to be used for many years. Like transmission mains, the distribution mains will either be removed or abandoned at retirement. The Company's study recommends that the service life of the distribution mains be increased slightly to 44 years from 42. Staff supports the extension of the service life because the 44 years seems to better reflect the 40 to 65 year lives listed in the AGA study.

Overall, net salvage values from 1975 through 2001 have been a negative 41%. From 1992 through 2001, negative salvage value was 56% and increased to 71% in the last five years. Currently the Company uses a negative salvage value of 40% and recommends a change to 60%. Staff supports this change for three reasons. First, there is more data to support this change than exists in the transmission mains account. The Company consistently had a significant number of retirements in this account that even out the wide ranges of amounts seen in the transmission mains account. Second, data from the previous Company study showed evidence that the negative salvage cost for this account was beginning to increase. This current depreciation study substantiates the findings of the last study. Finally, the data in the AGA study suggests that a 60% negative salvage cost is in line with other utilities.

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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.

Staff recommends that the Commission adopt the Company's request to change the depreciation rate from 3.60% to 4.02%.

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. The electronics and battery are housed in a sealed plastic enclosure that is mounted on the meter. This device has a battery life of approximately 15-19 years and has little or no value once the battery has been depleted. Since the life of the device is approximately 15 years, the Company recommends that the life of the equipment be rated at 15 years. Staff believes it is appropriate to set the depreciation rate based on the life of the equipment. Staff also recommends that these new accounts be depreciated at a rate of 6.63% as requested by the Company.

RECOMMENDATION

At this time, Staff recommends that the Company's Application be approved with the following changes:

1. The LNG plant be given a remaining life of 15 years instead of 10.
2. The negative salvage rate of 32% for account 367 should remain unchanged instead of increased to 50% as proposed by the Company.
3. The life of the transmission line through the reservation should be reduced to 32 years instead of the 20 years proposed by the Company.

These changes will give an overall depreciation rate of 3.93% and a total annual depreciation expense of $11,038,234. This allows for an increase in depreciation expense of $3,784 per year instead of the $428,482 requested by the Company.

Staff recommends that the Commission adopt the Company's recommendation to implement the new depreciation rates effective at the beginning of Intermountain's fiscal year, October 1, 2002.

Staff also recommends that Intermountain Gas file another depreciation study for Commission and Staff review in another three years. Staff encourages the Company to work to solve the identified accounting problems to provide good data for future studies.

Dated at Boise, Idaho, this 13th day of January 2003.

Lisa D. Nordstrom

Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Alden Holm
Michael Fuss

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13TH DAY OF JANUARY 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-02-4, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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