

Jeffrey C. Brooks  
Advanced Energy Strategies, Inc.  
1027 E. Cayman Drive  
Meridian, ID 83642  
(208) 867-9062  
[brooksjc1@aol.com](mailto:brooksjc1@aol.com)

RECEIVED   
FILED

2003 JUN 13 PM 2:29

IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION  
OF INTERMOUNTAIN GAS COMPANY  
FOR AUTHORITY TO INCREASE ITS  
RATES FOR SERVICE

CASE NO: INT-G-03-01

COMMENTS OF INTERVENOR  
JEFFREY C. BROOKS  
ADVANCED ENERGY STRATEGIES, INC.

**Comes now** Intervenor, Advanced Energy Strategies (AES) by and through Jeffrey C. Brooks of Advanced Energy Strategies, Inc (AES), in response to Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on May 14, 2003, regarding Intermountain Gas Company's annual Purchase Gas Adjustment rate increase request.

**Background**

The price of natural gas, on the national scene, has nearly doubled in the past year and this has prompted Intermountain Gas Company's (IGC) request for an annual PGA rate increase for all but Transportation customers. AES believes and asserts that IGC has done little to proactively manage retail gas sales to mitigate the national price impacts of natural gas supplies. AES asserts that this is action, or lack thereof, is a business strategy employed by IGC to purposely allow and facilitate a rise in retail gas rates to rise in order to increase incremental revenues from captive customers. Further, AES asserts that IGC operates its facilities and marketing practices in such a way as to provide maximum benefit to the Company's owners at the expense of residential and small commercial ratepayers who do not qualify for participation in Transport Gas rate schedules.

## **Discussion**

AES will discuss three topics that may lend a greater understanding on how Intermountain Gas Company operates its business to maximize investor value. These three general areas are:

- Natural Gas Storage Facility Operation
- IGC Marketing and Conservation Practices
- Rate Structure vs. Profit Margin

### Natural Gas Storage Facility Operation

The first issue that AES wishes to raise concerns the operation of IGC's natural gas storage facilities in Nampa, and whether or not the strategies and practices employed at those facilities have resulted in net benefits for captive ratepayers, or for Intermountain Industries Owners.

In the recent past, when natural gas prices rose significantly (around 2000, 2001) the IGC storage facilities in Nampa were already filled to capacity with previously purchased, relatively low cost natural gas. Following the PGA price increase that year, the stored natural gas was then brought out of storage and sold to captive ratepayers at the newer, higher retail prices.

It is unclear whether the additional revenue which resulted from the sale of the stored natural gas flowed through to the benefit of ratepayers—who paid for the storage facilities through rate base—or did those increased marginal revenues flow through to Intermountain Industries ownership, or was there a sharing of benefits between IGC ownership and ratepayers. As stated, this issue remains unclear from the available information, however, during that timeframe, IGC management made comments to certain audiences that IGC was making “good money” by selling the lower priced stored gas at higher the retail rates, which had resulted from national price signals that prompted approval of the annual PGA rate increase approvals during 2000 and 2001.

It was never conveyed publicly whether the increase in revenue benefits due to the sale of lower-priced storage gas was being shared with ratepayers. The only communication was that the Company's owners were "making good money." If no benefit—due to storage infrastructure investment—flowed through to ratepayers, then perhaps it is appropriate to revisit the records of those transactions to examine the accounting practices employed and determine whether a reallocation of funds is warranted.

This experience sheds light on the current 2003 PGA request now before the Commission. Is IGC positioned to repeat the alleged practice of shifting the incremental benefits of rate based infrastructure and gas price differentials to IGC ownership rather than to ratepayers? What is the current volume of stored natural gas at the IGC Nampa storage facilities, and what was the purchase price? Moreover, can captive ratepayers reasonably expect to enjoy any benefits, which may accrue due to the existence and prudent operation of the storage facilities?

AES expects IGC to exercise every opportunity to provide ratepayer benefits in accordance with their standing as a corporate citizen and steward, granted monopoly-operating status. AES also expects IGC to be appropriately compensated and rewarded for prudent operation of its gas distribution system and storage facilities on behalf of ratepayers. However, during the course of recent years we have witnessed alarmingly widespread wrongful and deceptive accounting practices at many highly respected corporations in America, which prompts a certain degree of skepticism. AES contends that it is prudent for the Commission to examine IGC's current and past accounting practices to reassure the rate-paying public that their interests are adequately considered. An investigation of this sort should not be overly difficult or cumbersome, and could be completed within a two-week or less period by simply reviewing past records.

#### IGC Marketing and Conservation Practices

AES believes it is always prudent and wise to promote meaningful conservation of resources. Energy efficiency and conservation of resources are an historical imperative that

should not be allowed to wax or wane according to transitory market fluctuations. AES asserts that the practices of IGC's conservation efforts warrant scrutiny by the Commission.

Intermountain Gas Company, in general, promotes energy efficiency, to a minimal degree. IGC provides general educational information about appropriate thermostat settings, weather-stripping, and insulation levels. This is laudable but doesn't necessarily result in significant, measurable or quantifiable energy savings resources.

IGC also offers some residential customers a rebate incentive of \$200 for the installation of a high efficiency natural gas furnace. That is, a furnace with an efficiency rating of 90 percent or higher. However, IGC limits participation in the high-efficiency furnace rebate program to only those customers who are switching from another heating fuel to natural gas. Thus, the implementation strategy of IGC's rebate program is, in reality, a fuel-switching marketing program designed to capture new customers and gain greater market share.

The bulk of the conservation potential resides within the existing population of natural gas customers with aging equipment, and with new construction. Most of the existing stocks of natural gas furnaces were marginally 80-percent efficient systems when new out-of-the-box. With aging and system degradation, these same systems now have operational efficiencies that range from forty- to sixty-percent depending upon installation and maintenance practices of individual installers and owners. Moreover, the majority of new homebuilders continue to install the marginally efficient eighty-percent units. The result is that there is that IGC does not promote or practice energy conservation in a meaningful way that might help to mitigate the impacts of aggregate energy consumption on the national market.

IGC's high efficiency furnace rebate program may or may not be a disingenuous "conservation" practice, and this depends upon whether or not IGC receives special accounting treatment for rebate funds. If IGC ownership supplies monies for the rebate payments as a marketing strategy, that may be a prudent business practice. However, if IGC receives special accounting treatment for those funds and the rebate costs are funded by ratepayers, then AES

asserts that the program should be available to all captive customers for participation. Here too AES suggests that the details of this program's mechanics are worth a review to insure that this "conservation" practice is appropriately accounted for so that those who receive the benefits of the program are those who support it financially.

Moreover, IGC could promote some other conservation measures to its customers. One measure would be the use of zone heating systems. Natural gas fireplace technologies have advanced to the point where they are highly efficient, and come prepackaged with thermostatic controls. The energy saving potential is very high simply because these zone heating systems, by their very nature, do not rely on ductwork systems to deliver heating to the occupied space. Typically, home ductwork systems are notoriously inefficient and have losses that average twenty-five percent due to leaks and their placement outside the conditioned space. Thus, when a central furnace system is used, the entire dwelling is heated—even unoccupied spaces—and the system suffers an additional twenty-five percent loss, on top of the twenty-percent furnace system loss. In contrast, high efficient zone heating systems (fire places) are now available in the ninety-percent efficiency range, without any associated duct losses. Thus, if the zone heating system can be located either in an area of high occupancy, or an area conducive to passive heat transfer, a homeowner could realize substantial heating cost savings, and increased home equity value.

Another practice that promotes inefficiency and increased natural gas sales has to do with new home construction processes. Most new homebuilders are eager to get natural gas service to the new structure to facilitate finish. It is a common practice for builders to utilize the new home furnace and heating system to provide heating to dry out drywall mud, painted, and textured surfaces. Typically, the furnace is allowed to force heated air throughout the home where it facilitates evaporation of wet surfaces. Then the moisture and contaminant-laden air either escapes through open doors and windows, or is drawn into the return air system. If done improperly this is a great revenue enhancer for IGC. Not only does IGC get revenue from the builder for natural gas used to dry the home, but if improperly done, and the homebuilder does

not use appropriate filtering media to protect the home heating system, the furnace and duct system become contaminated with construction byproducts.

The contamination of home heating system with construction byproducts has three effects. First, the efficiency of the new heating system is immediately altered and reduced as the heat exchangers become coated with contaminants which retards the systems ability to capture and utilize the heat generated at the burner. This reduction in system efficiency, due to construction byproduct contamination, lasts for the lifetime of the system so that the new homeowner will pay higher gas bills to heat his home for the 15-year average life of the system. The second effect is a health consideration from the dust and chemicals that now coat the inside of the ducts and furnace components. The third effect is that this practice, if detected, voids the warranty of the new furnace for the unsuspecting new homebuyer.

Of course, Intermountain Gas is not responsible for the practices of unethical homebuilders and trade allies. However, they are aware of the practice, they knowingly facilitate it by rushing to set meters specifically in response to builders request for construction heat. There is an economic and trade-ally incentive for IGC to allow this practice to continue, and therefore are they are complicit.

These factors, whether the failure to promote efficient furnaces or zone heating systems, or enabling of poor and unethical building practices result in unnecessarily high future gas bills and potential health hazards. Further, these practices result in increased energy use that contributes to and exacerbates the demand for natural gas and increased natural gas prices. These practices, or lack thereof, constitute negligence on the part of IGC to properly conduct its business in a manner responsible to its customers and to society, and to the benefit of IGC ownership through increased sales.

#### Rate Structure vs. Profit Margin

Let us now turn our attention to gas rates and profitability. If energy rates are based upon cost-of-service, with an equal profit percentage applied to those costs for various customer

classes, then there is an incentive for increased cost-of-service and increased energy costs. The math seems simple. For ease of discussion let us assume the approved profit margin is nine percent per unit of energy—in this case a therm of natural gas. In addition, let us also assume that, due to all the various aggregated impacts affecting energy use and supply nationwide, the cost per unit of energy rises from 50 cents, to a dollar per therm. Under these assumptions, it appears that the local gas utility will see a doubling of their profit margin from 4.5 cents per therm to 9 cents per therm; even though the notion exists that the cost increase of the PGA is simply a pass-through of higher energy costs, over which we have no control, and which provides no additional profit for IGC.

This may not be the appropriate proceeding to consider IGC's approved rate of return ceiling. But IGC's internal hurdle rate of 12.5 percent represents an enviable investment opportunity available to only a very few over the past three years.

### **Conclusion**

AES has attempted to raise some of the issues that impact the cost of natural gas globally, and locally, and some of the practices Intermountain Gas employs in its own behalf that may not represent the best interests of its captive customers. For the reasons and issues detailed, AES believes this PGA rate request presents an opportunity to examine more closely some aspects of IGC's practices. AES believes and asserts that such examination will provide insights to counterbalance IGC's arguments in support of their PGA rate increase request, and perhaps correct some previous accounting errors or omissions

### **Recommendations**

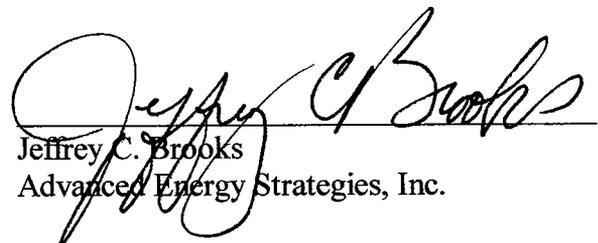
AES recommends that the Commission:

1. Examine data from past operation of the Nampa natural gas storage facility, prices paid for the gas, prices the gas was sold at, and whether any extra marginal benefit was appropriately distributed to ratepayers;
2. Request information on current factors of operation of the Nampa gas storage facility to determine what benefits may now be due to ratepayers;

3. Determine whether rebate program accounting practices employed by IGC are appropriate; whether any modification of program operation is warranted; and whether any accounting adjustments are warranted;
4. Require IGC to proactively intervene on behalf of customers to insure that reasonable expectations of homebuyers are met regarding homebuilder practices and home heating system integrity;
5. Require IGC to provide educational customer information literature regarding potential building practice hazards, mitigation opportunities, and efficient central and zone space heating options so customers may make informed gas appliance purchase decisions.

AES provides these comments in the belief that they hold insight and value for the Commission and the customers of Intermountain Gas Company. If the Commission does find that the comments provided herein represent a unique value to the Commission and to IGC customers, AES would like to apply for Intervenor funding to support its ongoing efforts.

Respectfully submitted this 13<sup>th</sup> day of June 2003.



Jeffrey C. Brooks  
Advanced Energy Strategies, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 13<sup>th</sup> day of June 2003, I caused to be served a true and correct copy of the forgoing by the method indicated below, and addressed to the following:

John Hammond  
Deputy Attorney General  
Idaho Public Utilities Commission  
472 W. Washington Street (83702)  
P.O. Box 83720  
Boise, ID 83720-0074

7 copies

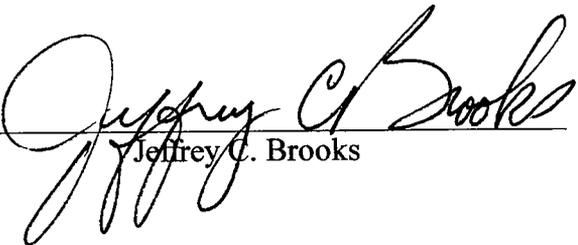
U.S. Mail     Fax     By Hand     Email

Michael Huntington, Vice President – Marketing & External Affairs  
Intermountain Gas Company  
555 S. Cole Road  
P.O. Box 7608  
Boise, ID 83707

U.S. Mail     Fax     By Hand     Email

Morgan W. Richards Jr.  
Moffatt, Thomas, Barrett, Rock & Fields CHTD  
US Bank Plaza Bldg 10<sup>th</sup> Floor  
101 S. Capitol Blvd.  
Boise, ID 83701-0829

U.S. Mail     Fax     By Hand     Email

  
\_\_\_\_\_  
Jeffrey C. Brooks