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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR APPROVAL TO PLACE INTO EFFECT A CHANGE IN ITS COMPOSITE DEPRECIATION RATE	**CASE NO. INT-G-05-3** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through it Attorney of Record, Donovan E. Walker, Deputy Attorney General, in response to the Notice of Application, Notice of Modified Procedure, and Notice of Comment/Protest Deadline issued on November 23, 2005, Order No. 29917, submits the following comments.

BACKGROUND

Intermountain Gas Company (Intermountain; Company) filed an Application with the Commission on October 28, 2005, requesting authority to place into effect a change in its composite depreciation rate from 3.93% (3.98% when weighted by September 30, 2004 assets) to 3.37%. The effect of the lower rate would be to decrease Intermountain's annual depreciation accrual by $1,998,923 annually. Although the Company's depreciation expense would decrease, the Application did not seek a change in its current prices and rates resulting from this change.

STAFF ANALYSIS

Staff has reviewed the Company's application and performed an analysis on the requested decrease in depreciation rates. The Commission previously reviewed the Company's depreciation expense in Case No. INT-G-02-4, and approved an overall depreciation rate of 3.93% of the annual investment balance. See Order No. 29187. This rate is used to determine an annual depreciation expense as of September 30, 2004, of $13,035,087.

In this case the Company's depreciation study uses an investment balance of $327,259,429 as of September 30, 2004; and shows an increase in investment since the Company's prior case of $46,269,347. Attached as Attachment A is a schedule showing the additional investment in each of the investment accounts, the reserve balance for each account, the remaining service life, and the annual accrual rate for each account. Although the amount of investment balance has increased, the Company is requesting that the amount of annual depreciation expense be reduced by $1,998,923. Several accounts are changed by the new depreciation study, however, most of the changed accounts experienced minor changes. The overall decrease in depreciation expense is attributable to changes in three accounts: Account 376 -- Mains, Account 380 – Services, and Account 392 -- Transportation Equipment. The changes in these three accounts will be discussed below. The overall net change when these three accounts are removed from the depreciation study was ($14,579) or approximately one-tenth of a percent (0.1%) of the total depreciation expense.

The major changes in the depreciation expense are generally attributed to a lengthening of the useful life of mains and services due to the use of plastic pipe as opposed to steel, as well as adjustments to the net salvage value.

ACCOUNT 376.00 -- MAINS

This account represents the Company's investment in distribution mains. Both steel and plastic pipe are used as these distribution mains. The Company had an investment balance of $112,440,644 with $62,837,622 of reserved investment balance as of September 40, 2004. In the current depreciation study, a life analysis indicates that the life of these investments should be increased. As part of the previous study, the Company used a 44-year service life. The new study recommends that this service life be increased to 51.4 years.

The service life is a weighted service life because the service life for steel pipe is different from the service life for plastic pipe. When the longer service life is applied to the investments in this account, the ultimate result is a reduction in the annual depreciation expense of $966,990. Staff has reviewed the increase in the service life of these investments and agrees with the Company that this is a reasonable change. Therefore Staff recommends this decrease in the annual depreciation expense.

ACCOUNT 380.00 -- SERVICES

This account represents the investment of the Company in the service lines the Company uses to provide gas to its individual customers. The Company had an investment balance of $100,838,552 with $52,318,921 of reserved investment balance as of September 40, 2004. In the current depreciation study, the Company is recommending a longer service life for the assets in this account. Currently, the Company is using a 36-year service life for this account. The study recommends that the service life be lengthened to 45.3-year weighted service life. This also is a weighted service life because the service life must account for the difference in service lives for steel pipe and plastic pipe. When the longer service life is applied to the investments in this account, the ultimate result is a reduction in the annual depreciation expense of $1,149,559. Staff has reviewed the increase in the service life of these investments and agrees with the Company that this is a reasonable change. Therefore this decrease in the annual depreciation expense is recommended.

Staff has found that an accounting entry in this account was not posted correctly. During 2003, $5,261,089.50 of additional investment should have been included in this account. Additionally, Account 381 -- Meters should have been reduced by $5,370,634.10 and Account 378 -- Regulator Station Equipment should have been increased by $109,544.60. When these corrections are made the annual depreciation expense should be reduced by $60,002. Instead of the annual depreciation expense of $11,036,164 as asked for in the application, the correct annual depreciation expense should be $10,976,162. The incorrect accounting entry, although not changing the Company's total investment balance, causes the depreciation expense to change because of different service lives and different salvage values in the affected accounts.

ACCOUNT 392 -- TRANSPORTATION EQUIPMENT

This account represents the Company's investment in CNG equipment, automobiles, light trucks, vans, SUVs, heavy trucks, utility boxes, and trailers. The Company has a total investment in this account of $5,378,092 with a reserve investment balance of $2,622,696. The depreciation study indicates that a 9-year service life be continued. However, the depreciation study also indicates that the salvage value of these assets at retirement is less that in previous studies. The last study recognized a net salvage value of 15%; this study recommends that the net salvage value be reduced to 5%. This reduction of net salvage value causes the annual depreciation expense to increase from $489,406 to $591,590 or an increase of $102,184. Staff believes this change is not unreasonable and recommends it be accepted.

PRIOR DEPRECIATION STUDY ACCOUNTING PROBLEMS

As Staff investigated the Company's prior Application to establish depreciation rates (Case No. INT-G-02-4), it encountered an accounting problem regarding the manner in which the Company recorded its retirements from the depreciable investment accounts. The Commission's Order in that case (Order No. 29187) recognized the Staff's comments and noted that "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". In this case, Staff revisited that accounting problem with the Company. The Company appears to have corrected the accounting problem; and now has accounting procedures in place that will insure that when any asset is retired from use, the appropriate original investment is removed from the appropriate account. Staff does not believe the previous accounting problem has an impact on the balances used in this depreciation study and that going forward it is reasonable to utilize the results of this study.

LNG PLANT

The Staff reviewed the useful life of the LNG plant with the Company. The Company stated that it intends to perform the necessary research and study work in the next twelve (12) months to support a decision regarding whether or not to keep the LNG facility for a longer period or replace it with additional peaking capacity from the Northwest pipeline. In comments supporting the prior service life of 15 years, Staff took the position that maintaining the LNG facility is more economical than acquiring firm peaking capacity. The Company's review of the LNG plant should include more than straight economic analysis; risk associated with supply should also be part of the review. With a firm commitment from the Company to bring before the Commission a decision on the prudence of the LNG plant, there is no reason to disturb the current service life as recommended in the current study. Instead, the issue of remaining life and salvage value should be addressed after the Company evaluates its peaking capacity options and files its next depreciation case with the Commission.

RECOMMENDATION

At this time Staff recommends that the Company's Application be approved with the one correction reflecting the correct account balances for the following three accounts:

Account 378	Regulator Station Equipment	Increased by $109,544.60
Account 380	Services	Increased by $5,261,089.50
Account 381	House Meters	Decreased by $5,370,634.10

These changes will decrease the proposed annual depreciation expense by an additional $60,002, for a total annual depreciation expense of $10,976,162 or an overall rate of 3.35%. The Company's Application requested a decrease in its annual depreciation expense of $1,998,923. With the above adjustment, the Company's annual depreciation expense would be decreased by $2,058,925.

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, 2005.

Respectfully submitted this 24th day of January 2006.

Donovan E. Walker
Deputy Attorney General

Technical Staff: Harry Hall
Joe Leckie

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INTERMOUNTAIN GAS COMPANY
Depreciation Expense Study
INT-G-05-3
Comparison of Investment in 9/30/98 to 9/30/04

Category	Study Category	Account Name	Investment Balance 9/30/01	Investment Balance 9/30/2004	Increase in Investment Since 9/30/01	Investment Reserve Balance 9/30/04	Estimated Remaining Service Life	Annual Accrual Rate	Annual Accrual
Storage									
	LNG	LNG Plant	$7,664,624	$7,722,265	$57,641	$8,039,279	10.40	1.61%	$124,328
Transmission									
	ROW	Right of Way	$600,059	$600,059	$0	$188,973	32.60	2.10%	$12,601
	TMN	Transmission Mains	$30,310,725	$31,929,758	$1,619,033	$24,335,272	23.30	3.04%	$970,665
	TCS	Compressor Equipment	$1,965,570	$1,978,119	$12,549	$1,031,595	16.00	3.61%	$71,410
	TCE	Communication Equipment	$714,440	$714,440	$0	$733,901	4.30	0.53%	$3,787
Distribution									
	LRT	Land Rights	$278,845	$332,293	$53,448	$189,712	22.10	1.94%	$6,446
	STR	Structures and Improvements	$18,864	$18,864	$0	$18,526	8.30	0.82%	$155
	MNS	Mains	$102,444,877	$112,440,644	$9,995,767	$62,837,622	33.90	3.16%	$3,553,124
	MRG	Regulator Station Equipment	$3,199,286	$3,410,089	$210,803	$1,894,775	17.60	3.02%	$102,985
	SVC	Services	$86,451,686	$100,838,552	$14,386,866	$52,318,921	32.40	3.34%	$3,368,008
	MTR	Meters	$13,497,207	$20,497,795	$7,000,588	$7,106,121	23.60	2.86%	$586,237
	ERT	ERT Units	$292,324	$7,780,006	$7,487,682	$971,905	13.20	6.43%	$500,254
	MTI	Meter Installations	$6,568,374	$8,051,538	$1,483,164	$2,857,821	22.10	2.92%	$235,105
	ERI	ERT Installations	$54,519	$1,280,494	$1,225,975	$176,352	13.10	6.58%	$84,257
	HRG	House Regulators	$3,407,119	$3,892,943	$485,824	$1,703,930	21.30	2.64%	$102,774
	HRI	House Regulators - Installation	$2,235,190	$3,384,440	$1,149,250	$827,668	26.00	2.90%	$98,149
	IMR	Regulator Station - Industrial	$7,023,231	$7,687,316	$664,085	$3,784,544	15.00	3.72%	$285,968
General									
	GSI	Structures and Improvements	$7,764,358	$8,384,790	$620,432	$4,326,110	16.40	2.65%	$222,197
	GTR	Transportation Equipment	$5,650,389	$5,378,092	-$272,297	$2,622,696	4.20	11.00%	$591,590
	GPE	Power Operated Equipment	$848,395	$936,932	$88,537	$398,022	7.10	5.99%	$56,122
			$280,990,082	$327,259,429	$46,269,347	$176,363,745		3.35%	$10,976,161

Attachment A

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 24TH DAY OF JANUARY 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-05-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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