

completed in 2009. This upgrade will provide for 16,000 therms per day of incremental distribution capacity to new Ketchum and Sun Valley, Idaho customers at an estimated cost of \$640,000.

Intermountain Gas Company (Intermountain) proposes a new rate schedule that will require new customers whose estimated peak-day (EPD) usage on the Company's Sun Valley Lateral exceeds the average peak-day (APD) usage on the Lateral to pay a fee for the incremental distribution system plant investment that these new customers cause. New customers with an EPD equal to or less than the APD will not be subject to the proposed hook-up fee.

The Company proposes that the fee initially be set based on the estimated cost of \$640,000 to construct the Ketchum Uprate Project. The specific hookup fee for each new customer will be calculated by multiplying the per therm capacity cost of the new lateral by the estimated number of therms above the APD. The Company intends to file a revised rate schedule with the Commission reflecting the actual costs of the Ketchum Uprate when they become known. If actual costs of the Project result in a lower hook-up fee than what is initially approved, and therefore charged, to customers, the Company will issue a refund to customers who paid the inflated fee. If actual costs result in a higher hook-up fee the Company does not intend to seek the difference from customers who paid the lower fee prior to knowledge of the actual costs.

The Company insists that its earnings will not change as a result of the proposed new rate schedule. Any collected hook-up fee will be applied as a reduction to the distribution system plant investment (rate base) provided to serve the incremental Ketchum/Sun Valley area customers thereby avoiding any cross-subsidies that would otherwise occur to pay for any above average customer usage. The Company believes that failure to approve a hook-up fee will cause undue subsidization and upward price pressure on customers who are not directly benefitted from the Ketchum/Sun Valley area distribution system upgrades.

STAFF ANALYSIS

In Staff's review of Intermountain's proposal, three primary factors were analyzed:

- 1) The Company's previous SVL upgrades and the current capacity situation;
- 2) The unique needs of future growth and development on the SVL; and
- 3) Intermountain's method for calculating its hook-up fee.

Previous SVL Upgrades and Current Capacity Situation

Since the Company installed the Sun Valley Lateral in 1965, it has completed several system upgrades starting in 1974 when it replaced 19 miles of 8 inch piping with 10 inch piping. In addition the Company has completed two uprates: one in 2003 on 15 miles of the Lateral, and another in 2005 on approximately 33.5 miles of the Lateral. Uprates are generally a quick and relatively inexpensive method of increasing capacity in an existing pipeline because the existing system is maximized before the construction of additional facilities become necessary. However even with the past improvements and current SVL operating capacity of 180,000 therms per day, the Company notes that 97% of the demand on the Lateral occurs within the last (northern) 15 miles. In order to meet the system's estimated future peak capacity, most of which is anticipated to benefit a small percentage of unique customers toward the "end-of-the-line", the Company needs to uprate another pipeline segment requiring a capital cost of nearly \$640,000. The following chart shows the Company's actual cost, therms added per day, and cost per daily therm of previous SVL uprate projects along with estimates for the Ketchum Uprate Project.

Year	SVL Uprate Projects	Project Cost	Therms Added Per Day	\$'s Per Daily Therm Added
2003	Phase 1	\$675,000	20,000	\$33.75
2005	Phase 2	\$550,000	40,000	\$13.75
2009	"Ketchum Uprate"	\$640,000	16,000	\$40.00

The Ketchum Uprate is anticipated to be more expensive than the Company's previous uprate projects because it is closer to Ketchum and Sun Valley, involves relocating a regulator station, has a higher marginal cost per linear foot of piping, and is generally more complicated.

Unique Needs of Future Growth and Development

The Company anticipates a significant portion of the planned growth to be large homes and high usage seasonal customers, whose estimated peak day demand requirements are extremely high compared to their daily usage throughout the year. Although these homes require the same commitment by the Company to provide for the customer's peak day natural gas needs, the seasonal occupancy of these large homes do not allow the Company to generate year-round revenue to make the Ketchum Uprate Project cost effective without a hook-up fee. In order to

align the Company's commitment to provide service while ensuring projects are cost effective, the Company has identified a geographic region that will directly benefit from the capital investment. In this region, identified as the area north of Gimlet Road but excluding Gimlet Subdivision, the Company has proposed that new customers whose estimated peak day usage is higher than the average peak day usage pay a hook-up fee. The Company has estimated a 2-4 year cost recovery for the Ketchum Uprate given the proposed hook-up fee and the Company's growth forecast. However, the Company's growth forecast estimates are dependent on the type of growth that occurs and when it takes place. With current instability in the economy and the difficulty in estimating growth, Staff recommends that the hook-up fee stay in effect until either the Project investment is completely recovered or the additional incremental 16,000 therm capacity is utilized. Staff supports the hook-up fee because it represents a reasonable compromise by providing extra capacity to meet above average growth in per customer peak day demand while allowing new customers with average demand to take service without added cost.

Method for Calculating the Hook-Up Fee

In order to determine the hook-up fee, the Company had to determine a reasonable approach to calculate, and charge for, the incremental above-average demand placed on the system by new high usage customers. To calculate the above-average demand placed on the system, the Company estimated an average upper and lower hourly peak demand range that customers can place on the SVL. The ranges were estimated utilizing the equipment rating and usage data from a randomly selected sample of customers within the "Impact Area." In order to determine the upper usage boundary, the Company determined usage based on the hourly summation of mechanical equipment ratings. Since it is unrealistic for a customer to use 100% of the equipment rating, the Company conducted a regression analysis to determine the lower usage boundary. More specifically, the Company analyzed a sample of new customers to determine what realistic percentage of the average customers' installed equipment rating would be utilized on a peak day. From this study the Company was able to estimate that the average SVL customer utilized 47% of their equipment's maximum mechanical potential on a peak day. For simplicity in understanding and describing the calculations, the Company rounded this equipment usage estimate to 50%. Based on this lower range study, the Company proposed to take 50% of the new customers installed natural gas equipment rating, multiplied by 20 hours, to arrive at the customer's estimated peak-day consumption needs. To determine the incremental

amount subject to a hook-up fee, the Company subtracts the average peak-day (APD) demand shown in the last IRP as 15.5 therms from the customers estimated peak-day (EPD) demand. Any positive amount from this calculation (APD<EPD) represents the therms in excess of average, these therms are then multiplied by \$40 dollars, or the incremental cost per therm (\$640,000/16,000 therms) of the Ketchum Uprate. 16,000 therms is the additional capacity provided by the Ketchum Uprate. Staff sees this as a reasonable way to calculate the incremental costs and the above average therms subject to the fee. However, if when the Project is complete the actual Project costs included in the hook-up fee calculation are lower than what was approved by the Commission, Staff recommends that customers who have paid the higher hook-up fee be refunded the difference in hookup fees with interest at the customer deposit rate.

Public Participation and Comments

The Application was received and the News Release distributed on June 15, 2009. The Company did not send out a Customer Notice to the "Impact Area" customers because the hook-up fee is anticipated to primarily impact new customers. The only exception to this would be where an existing customer adds square footage requiring new equipment, and the EPD usage is calculated above the APD usage. Staff reviewed the News Release and found that the Company did not include everything typically required in Rule 102, Utility Customer Information Rules (UCIR), IDAPA 31.21.02.102. However, Staff understands that Rule 102 is not meant to apply to hook-up fees but instead base rate and PGA changes. According to the Company, the Application has also been directly brought to the attention of those governmental bodies whose jurisdictional area would be impacted by the proposed rate schedule.

Parties interested in intervening were given until July 24, 2009, to be a formal party to the proceeding. There were no parties that intervened. Even though the Commission considers public comments up until the time the case is completed, as of July 24, 2009 only five public comments were received, all of which supported the hook-up fee. The City of Sun Valley, Ketchum, and the District 25 legislative representatives were all supportive of an equitable solution where future growth adequately pays their incremental "fair share." One construction company voiced support on the design of the fee structure "inasmuch as it appears to be equitable and directly proportionate to natural gas usage." Staff recommends the Company continue to involve and solicit feedback from the governmental bodies and customers who are

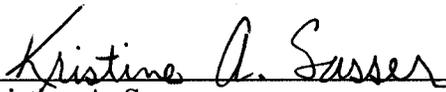
impacted by the proposed rate schedule, specifically as the Project costs are finalized and the Company reevaluates its hook-up fee with the Commission.

STAFF RECOMMENDATION

After a complete evaluation of the Company's application, its methodology and conclusions, Staff recommends that the Commission approve the Company's proposed rate schedule for the SVL. However, Staff has the following additional recommendations:

- 1) If the actual costs of the Ketchum Uprate Project result in a lower hook-up fee than that initially approved and charged to customers, the Company will refund the difference between the charges and the lower hookup fee ultimately approved by the Commission including interest at the customer deposit rate.
- 2) That the Company collect the hook-up fee only until either the Ketchum Uprate Project costs are completely recovered or the additional incremental 16,000 therm per day capacity provided by the Ketchum Uprate is fully utilized.

Respectfully submitted this 1ST day of September 2009.



Kristine A. Sasser
Deputy Attorney General

Technical Staff: Matt Elam

i:umisc/comments/intg09.1ksme comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF SEPTEMBER 2009, SERVED THE **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. INT-G-09-01 BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

MICHAEL P McGRATH / DIRECTOR
GAS SUPPLY & REG. AFFAIRS
INTERMOUNTAIN GAS COMPANY
PO BOX 7608
BOISE ID 83707
E-MAIL: mmcgrath@intgas.com

MORGAN W RICHARDS JR
RICHARDS LAW OFFICE
804 E PENNSYLVANIA LANE
BOISE ID 83706
E-MAIL: mwrlaw@cableone.net



SECRETARY

CERTIFICATE OF SERVICE