Office of the Secretary
Service Date
March 26, 2015

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION TO CHANGE ITS COMPOSITE DEPRECIATION AND AMORTIZATION RATES.	)	**CASE NO. INT-G-14-02**
	)	**ORDER NO. 33260**

On November 4, 2014, Intermountain Gas Company applied to the Commission for an Order authorizing the Company to: (1) increase its composite depreciation and amortization rates; and (2) reflect those changes in its books as of January 1, 2015. The Company's proposal, if approved, will not increase customer rates.

On November 12, 2014, the Commission issued a Notice of Application and set a November 26, 2014 intervention deadline. The Commission also advised persons that they could submit written comments if they did not wish to formally intervene as a party. On March 10, 2015, the Commission issued a Notice of Modified Procedure that set a March 19, 2015 deadline for interested persons to file comments in the case. No one intervened as a party, and Commission Staff was the only person or party to file comments.

Having reviewed the record, we enter this Order approving the Company's proposed amortization rates as filed, and depreciation rates as agreed upon by Staff and the Company, with the new rates to be reflected in the Company's books effective January 1, 2015. Our decision is explained more fully below.

THE APPLICATION

In its Application, the Company asks the Commission for an Accounting Order that would enable the Company to change its composite depreciation and amortization rates. The Company asks to increase its: (1) composite depreciation rate from 3.07% (3.06% when weighted by December 31, 2013 assets) to 3.12%; and (2) total General Plant account amortizations from $1,749,970 to $2,598,813. The Company says it needs these accounting changes because it has been under-depreciating its assets and under-amortizing General Plant Account Nos. 391, 393, 394, 395, 397 and 398. If the changes are approved, the Company's books would reflect them as of January 1, 2015, consistent with the start of the Company's financial reporting period. The proposed changes would not increase customer rates.

STAFF COMMENTS

In its comments, Staff notes that it reviewed the Company's Application and accompanying Depreciation and Amortization Accrual Rate Studies and analyzed the depreciation rates, service lives, remaining lives, and salvage values for all plant asset accounts. Staff also reports that it met with the Company and the Company's depreciation consultant to address some questions that Staff had about the Application. Based on its review and meetings with the Company, Staff makes the following recommendations and represents that the Company concurs.

A. Amortization

Staff recommended the Commission approve the Company's proposed amortization rates as filed, which increases the proposed annual amortization for Account Nos. 391, 393, 394, 395, 397, and 398 by $848,843, to $2,598,813. Staff reports that many of the proposed changes reflect changes in customer service. Changes to Account 391, Furniture and Office Equipment, reflect additions for modular work stations, computer equipment and software upgrades. Changes to Account 397, Communications Equipment, reflect shorter lives for telephone and radio systems. These changes also reflect the Company's share of a new call center jointly used by the Company, Cascade Gas and MDU North Plains. Staff notes that, although it accepts the Company's amortization rates as filed, the Company has agreed to include additional detail for Accounts 391 and 397 with its next Amortization Study.

B. Depreciation

Staff recommended the Commission adjust the Company's proposed depreciation rates to let the Company depreciate $14,617,310 each year for a composite depreciation rate of 3.05%. Specifically, Staff recommended the Commission's Order address the Company's depreciation rates for Electronic Meter Reading Transmitters, Distribution Mains, Regulating Station Equipment, and the Company's Nampa Liquefied Natural Gas (LNG) Facilities, as follows.

1. <u>Electronic Meter Reading Transmitters (ERTs)</u>

In 2002, the Company began installing ERTs that record and transmit usage data to Company vehicles. The Company must replace an ERT when its battery fails, and the manufacturer says the batteries last 15 years. Accordingly, the Company proposed to depreciate its initial ERT investment over 15 years, with a current annual depreciation rate of $2,406,907.

The Company also started replacing the ERTs in 2014, 12 years after deployment. The Company's depreciation study proposed an average remaining life of 2.6 years, and an annual depreciation expense of $2,545,702. After discussions, however, Staff and the Company agreed the Company should not change the ERT depreciation rate until after the Company has replaced all the ERTs and the Company's 2016 Depreciation Study has evaluated the appropriate depreciation rate for the new ERTs.

2. Distribution Mains

The Company currently depreciates distribution mains at $3,783,742 per year based on a 58-year service life and a negative 61% net salvage value. In its Application, the Company proposed a 2.33% depreciation rate, an annual depreciation expense of $3,417,100, and a negative 53% net salvage value. However, Staff reports that from 1975 through 2013, the Company experienced a negative 43.8% net salvage value, and that from 2004-2013 the Company experienced a negative 45.5% net salvage value. Staff thus recommended the Commission approve a compromise, negative 50% net salvage value, which would yield a 2.25% annual depreciation rate with an annual expense of $3,229,775. This recommended depreciation rate is $187,325 less than the Company's proposed depreciation rate, and $553,967 less than the Company's current depreciation rate. Staff says it and the Company will monitor the net salvage values for distribution mains, and the Company's 2016 Depreciation Study will reflect additional changes in this asset category, if necessary.

3. Regulating-Station Equipment

The Company currently depreciates regulating station equipment at $194,108 per year, based on a 35-year service life and a negative 10% net salvage value. In its Application, the Company proposed a negative 18% net salvage value with annual depreciation of $224,024. Staff recommended the Commission set a negative 14% net salvage value for the regulating station equipment. This results in a compromise annual depreciation rate of $213,588, which is $19,480 more than the Company's current depreciation expense but $10,436 less than what the Company proposed. Staff says it and the Company will monitor the salvage values for the regulating station equipment, and that the 2016 Depreciation Study can incorporate changes if necessary.

4. <u>Liquefied Natural Gas (LNG) Facilities – Nampa</u>

The Company has historically used its Nampa LNG facility to provide gas during high-demand periods. Staff reports, however, that from 2011 to 2013, the Company invested more than $4.6 million in the Nampa facility to enable the Company to load excess LNG onto trucks and, in part, to sell it to non-utility customers. *See* Order No. 32793. Staff currently does not recommend adjusting depreciation rates for the LNG facility. But Staff has concerns that some of the upgrades appear primarily to facilitate the commercial, non-utility sale of LNG and not peak period relief to customers.

The Company currently depreciates the Nampa LNG facility at 2.00% for an annual depreciation expense of $245,003. In the Application, the Company proposes increasing the depreciation rate to 2.55% and the annual depreciation expense to $312,379. Staff notes that the Company has historically extended the facility's life with upgrade investments and Staff expects similar activity going forward. Staff thus recommended the depreciation rate remain at 2.00%, with an annual expense of $245,003, until the next Depreciation Study after Staff and the Company have re-evaluated the LNG sales allocations, reserves, and plant use as discussed above.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over this matter under Title 61 of the Idaho Code, including *Idaho Code* §§ 61-501, -503, -524, and -525. We have reviewed the record, including the Application and Staff's comments. Based on what we have been provided—including Staff's representation that the Company concurs with Staff's recommendations—we find it fair, just, and reasonable to approve: (1) the Company's proposed amortization rates as filed and reflected in Exhibit 1 to this Order, and (2) the agreed upon depreciation rates, including a composite depreciation rate of 3.05%, as set forth in Exhibit 2 to this Order.[1]

We also find it reasonable to periodically re-evaluate the customer cost allocations associated with the commercial sale of LNG from the Company's Nampa facility. We recognize that the Company's PGA currently provides a 2.5 cents-per-gallon-sold credit to utility customers to offset LNG facility operations and maintenance. The Company has set aside an additional 2.5 cents-per-gallon-sold to further insulate its natural gas customers from the

[1] Exhibit 1 is taken from page 1 of Exhibit 2 to the Company's Application. Exhibit 2 is taken from page 3 of Attachment A to Staff Comments.

accelerated capital expenditures and maintenance expenses that may arise from the Company's non-utility, commercial sale of LNG. We direct Staff and the Company to routinely revisit the allocation methodology and reserve amounts in order to ensure the Company's natural gas customers continue to be insulated from these extra costs. Lastly, we find it reasonable for the Company to add more detail for Accounts 391 and 397 in its 2016 Amortization Study, and to include detailed discussions of ERTs, salvage values and the Nampa LNG Plant in its 2016 Depreciation Study.

O R D E R

IT IS HEREBY ORDERED that the Company's proposed amortization rates are approved as filed, as summarized in Exhibit 1 to this Order. The Company's account-by-account depreciation rates, as set forth in Exhibit 2 to this Order, with a composite depreciation rate of 3.05%, are also approved. The new depreciation rates and amortization rates shall be effective and reflected in the Company's books as of January 1, 2015, consistent with the start of the Company's financial reporting period.

IT IS FURTHER ORDERED that the Company shall work with Commission Staff to re-evaluate the customer cost allocations associated with the commercial sale of LNG from the Company's Nampa LNG facility.

IT IS FURTHER ORDERED that the Company shall add more detail about Accounts 391 and 397 in its 2016 Amortization Study and it shall include detailed discussions of ERTs, salvage values and the Nampa LNG Plant in its 2016 Depreciation Study.

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 26th day of March 2015.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

KRISTINE RAPER, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:INT-G-14-02_kk3

Intermountain Gas Company
General Plant Amortization Study
As of December 31, 2013

Line Number	(a) Account Descrition	(b) 391 Furniture and Office Equipment	(c) 393 Stores Equipment	(d) 394 Tools, Shop, and Work Equipment	(e) 395 Laboratory Equipment	(f) 397 Communications Equipment	(g) 398 Miscellaneous Equipment	(h) Total General Plant Amortizations
1	Investment	10,570,598.45	10,529.34	3,657,403.91	0.00	4,493,872.31	1,152.88	18,733,556.89
2	Reserve	5,412,167.89	17,479.57	1,179,802.86	0.00	1,654,615.90	(3,051.35)	8,261,014.87
	Current Ammortization							
3	Rate	0.1072	0.0294	0.0695	0	0.0806	0.0833	0.0934
4	Expense	1,133,168	310	254,190	-	362,206	96	1,749,970.00
	Proposed Amortization							
5	Retiring Investment	948,700.93	10,529.34	259,985.10	0.00	1,675,226.29	0.00	2,894,441.66
6	Reserve	948,700.93	10,529.34	259,985.10	0.00	1,675,226.29	0.00	2,894,441.66
7	Rate	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0
8	Expense	-	-	-	-	-	-	0.00
9	Remainng Investment	9,621,897.52	-	3,397,418.81	-	2,818,646.02	1,152.88	15,839,115.23
10	Reserve	4,463,466.96	6,950.23	919,817.76	-	(20,610.39)	(3,051.35)	5,366,573.21
11	Rate	0.1618	0	0.0559	0	0.1895	0.4862	0.1641
12	Expense	1,556,823	-	189,916	-	851,513	561	2,598,813.00
	Total							
13	Expense	1,556,823	-	189,916	-	851,513	561	2,598,813.00
	Difference							
14	Expense	423,655	(310)	(64,274)	-	489,307	465	848,843.00

EXHIBIT 1
ORDER NO. 33260
CASE NO. INT-G-14-02

Intermountain Gas Company
Summary of Present and Proposed
Depreciation Accrual Parameters and Expenses
Study Date : As of December 31, 2013

Proposed Depreciation Rate Parameters (Depreciation Life & Rate Procedures)

Line Number	Account Number	Study Category	Account Name	Current Study 12-31-2013 Investment Balance	Current Study 12-31-2013 Reserved Investment Balance	Percent Reserved	Retirement Dispersion	Projection Life	Average Service Life	Average Age	Average Remaining Life	Net Salvage	Annual Accrual Rate	Annual Accruals
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	361.00	LNG	LNG Facilities - Nampa	12,250,165	10,107,103	82.5%	R5.0	15.0	30.5	24.5	15.0	-20.80%	2.00%	245,003
2	363.60	LNG	LNG Facilities Rexburg	4,771,916	719,280	15.1%	R5.0	20.0	19.9	5.3	14.6	15.00%	6.84%	326,399
3			Subtotal LNG Facilities Plant	17,022,081	10,826,383									571,402
4	365.00	ROW	Right of Way	773,903	320,963	41.5%	R5.0	41.4	41.6	14.8	27.0	0.00%	2.17%	16,794
5	366.00	TCS	Structures and Improvements	77,152	21,127	27.4%	R3.0	27.0	31.3	21.6	12.5	-5.00%	6.21%	4,791
6	367.00	TMN	Transmission Mains	68,806,581	35,068,023	51.0%	S5.0	49.0	50.3	17.9	33.2	-40.00%	2.68%	1,844,016
7	368.00	TCS	Compressor Equipment	1,730,359	(387,599)	-22.4%	R3.0	20.0	20.0	2.5	17.5	5.00%	6.71%	121,026
8	370.00	TCE	Communication Equipment	714,440	752,495	105.3%	L3.0	30.0	40.1	32.4	9.0	-5.00%	-0.03%	(214)
9			Subtotal Transmission Plant	72,102,435	35,775,008	49.6%			48.3	17.6	31.9	-36.42%	2.75%	1,986,413
10	374.00	LRT	Land Rights	423,098	259,626	61.4%	R5.0	48.0	51.1	30.1	22.4	0.00%	1.72%	7,277
11	375.00	STR	Structures and Improvements	18,864	19,736	104.6%	R5.0	45.0	51.4	47.8	3.6	-5.00%	0.11%	21
12	376.00	MNS	Mains	146,656,663	95,174,372	64.9%	R4.0	58.0	59.1	21.9	37.8	-50.00%	2.25%	3,299,775
13	378.00	MRG	Regulator Station Equipment	6,957,266	2,399,366	34.5%	R3.0	35.0	36.7	11.9	25.9	-14.00%	3.07%	213,588
14	380.00	SVC	Services	136,202,219	82,372,319	60.5%	R4.0	50.0	50.8	17.7	33.5	-50.00%	2.67%	3,636,599
15	381.00	MTR	Meters	22,941,851	11,745,278	51.2%	R4.0	42.0	43.4	18.5	25.8	0.00%	1.89%	433,601
16	381.20	ERT	Electronic Meter Reading Transmitter (ERT) Units	16,926,213	10,315,108	60.9%	R5.0	11.0	11.8	9.4	2.6	0.00%	14.22%	2,406,907
17	382.00	MTI	Meter Installations	11,042,724	4,644,841	42.1%	R4.0	42.0	43.2	18.8	25.1	0.00%	2.31%	255,087
18	382.20	ERI	ERT Installations	2,108,525	1,456,940	69.1%	R4.0	12.2	13.5	10.9	2.6	0.00%	11.88%	250,493
19	383.00	HRG	House Regulators	5,759,218	2,635,329	45.8%	R3.0	42.0	44.1	17.5	27.7	0.00%	1.96%	112,881
20	384.00	HRI	House Regulators - Installation	6,081,453	1,932,952	31.8%	R3.0	42.0	42.8	11.7	31.4	0.00%	2.17%	131,968
21	385.00	IMR	Regulator Station - Industrial	9,841,693	5,438,881	55.3%	R2.0	30.0	33.5	16.3	18.5	-5.00%	2.69%	264,742
22			Subtotal Distribution Plant	364,959,787	218,394,749	59.8%			44.0	18.8	27.3	-31.59%	3.02%	11,012,939
23	390.10	GSI	Structures and Improvements	16,160,548	6,413,696	39.7%	R2.0	34.0	37.5	15.5	23.9	5.00%	2.31%	373,309
24	392.10	GTR	Transportation Equipment	7,015,635	2,768,772	39.5%	L4.0	10.0	10.5	4.8	6.1	8.00%	8.61%	604,046
25	396.00	GPE	Power Operated Equipment	1,283,885	295,185	23.0%	L2.0	14.0	15.0	4.4	11.5	15.00%	5.39%	69,201
26			Subtotal General Plant	24,460,068	9,477,653	38.7%							4.28%	1,046,556
27			Total Depreciable Plant	478,544,370	274,473,793	57.4%							3.05%	14,617,310.00

EXHIBIT 2
ORDER NO. 33260
CASE NO. INT-G-14-02