

KARL T. KLEIN  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0320  
IDAHO BAR NO. 5156

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Street Address for Express Mail:  
472 W. WASHINGTON  
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

## **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF INTERMOUNTAIN GAS )</b>	
<b>COMPANY'S APPLICATION TO CHANGE ITS )</b>	<b>CASE NO. INT-G-14-02</b>
<b>COMPOSITE DEPRECIATION AND )</b>	
<b>AMORTIZATION RATES. )</b>	<b>COMMENTS OF THE</b>
<b>)</b>	<b>COMMISSION STAFF</b>
<b>)</b>	

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The Staff of the Idaho Public Utilities Commission comments as follows on  
Intermountain Gas Company's Application.

### **BACKGROUND**

On November 4, 2014, Intermountain Gas Company applied to increase its: (1) composite depreciation rate from 3.07% (3.06% when weighted by December 31, 2010 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, they would be reflected in the Company's books as of January 1, 2015, consistent with the start of the Company's financial reporting period. The proposed changes would not increase customer rates at this time.

## STAFF ANALYSIS

Staff has reviewed the Company's Application and accompanying Depreciation and Amortization Accrual Rate Studies performed by AUS Consultants. In reviewing the depreciation and amortization studies, Staff analyzed the depreciation rates, service lives, remaining lives, and salvage values for all plant asset accounts. Additionally, Staff met with the Company and its depreciation consultant on February 3, 2015 and on March 5, 2015. As a result of those discussions, Staff and the Company have agreed to new depreciation rates that will allow the Company to depreciate an annual amount of \$14,617,310 for a composite depreciation rate of 3.05%. Attachment A outlines the specifics related to the agreed upon annual depreciation rates. Staff and the Company agreed to accept the Amortization rates as filed. Adjustments from the Company's original filing are explained in greater detail below.

### *Electronic Meter Reading Transmitters (ERTs)*

In 2002, the Company began installing automated and remote electronic meter reading, using ERT devices that record the metered usage and transmit that usage to a radio receiving device in a Company vehicle as it passes through the Company's service area. The ERT device consists of a circuit board with a semiconductor chip radio transmitter, an electro-mechanical device that converts the rotating action of the meter registers into data that is stored in the ERT's memory chip, and a lithium battery. The manufacturer of the ERT devices has determined the battery life to be 15 years. When the battery fails, the total ERT is replaced since it would be more labor intense and costly to replace just the sealed battery. Accordingly, the Company depreciated its initial ERT investment with a 15-year service life with a current annual depreciation rate of \$2,406,907.

The Company began replacing the ERTs in 2014, 12 years after initial 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, Staff and the Company agreed that the ERT's depreciation rate should not change until after the Company has installed new ERTs throughout its service territory. The Company's 2016 depreciation study will reevaluate the appropriate depreciation rate for the new ERTs at that time.

### *Distribution Mains*

The Company's current depreciation rate for distribution mains is \$3,783,742 per year, with a service life of 58 years and a negative 61% net salvage value. In its Application, the Company proposed a depreciation rate of 2.33% and an annual depreciation expense of \$3,417,100, with a net salvage value of negative 53%. The net salvage experience over the period 1975 through 2013 has been a negative 43.8%, with recent experience (2004-2013) being a negative 45.5%. Staff and the Company have agreed to use a net salvage value of negative 50%, which results in an annual depreciation rate of 2.25% with annual expense of \$3,229,775. The agreed upon depreciation rate for this account is \$187,325 less than the Company's proposed depreciation rate, and \$553,967 less than the Company's current depreciation rate. Staff and the Company will monitor the net salvage values for distribution mains, and the 2016 depreciation study will allow any additional changes in this asset category if necessary.

### *Regulating Station Equipment*

For regulating station equipment, the Company currently uses a 35-year service life with a net salvage value of negative 10%, resulting in an annual depreciation expense of \$194,108. The Company's depreciation study recommended a net salvage value of negative 18% with annual depreciation of \$224,024. Staff and the Company agree that a net salvage value of negative 14% is appropriate. This results in an annual depreciation rate of \$213,588, for \$19,480 more than the Company's current depreciation expense, but \$10,436 less than what the Company proposed. As with Staff's other adjustments, the Staff and the Company will monitor the salvage values prior to the 2016 depreciation study and incorporate any necessary changes at that time.

### *Liquefied Natural Gas (LNG) Facilities – Nampa*

Historically, the Company has used its LNG facility in Nampa, Idaho to provide gas during periods of high demand typically occurring in the winter. In 2011, investment was made to allow LNG to be loaded on trucks, and in 2013, the Company also began using the facility for the non-utility sale of liquefied natural gas. *See* Order No. 32793. During 2011-2013, the Company invested over \$4.6 million in upgrades to the facility. Although Staff currently is not proposing to adjust the Company's depreciation rates for the Nampa LNG facility, Staff raised concerns with the Company that some of the upgrades appear primarily to facilitate the

commercial, non-utility sale of LNG, and to be more limited with regard to providing LNG to customers during peak periods.

The Company currently provides a 2.5 cent per gallon sold credit to utility customers in the annual Purchased Gas Adjustment (PGA) mechanism to offset the operations and maintenance of the LNG facility. Additionally, the Company has set aside another 2.5 cents per-gallon-sold recognizing that the commercial use of the facilities may accelerate capital expenditures and maintenance. Staff and the Company agree that the allocation methodology and reserve amounts should be revisited routinely to ensure that the Company's natural gas customers are not on the hook for additional maintenance and capital expenditures caused by the commercial sale of liquefied natural gas. The Company has agreed to let Staff access the Nampa facility, and to assist Staff in periodically reevaluating the allocations for the commercial sale of LNG.

The Company proposes a depreciation rate of 2.55% for the Nampa LNG facility, with an annual depreciation expense of \$312,379. The current depreciation rate is 2.00% with an annual expense of \$245,003. The plant life has historically been extended with upgrade investments, and Staff expects similar activity going forward. Staff and the Company agree that until the LNG sales allocations, reserves, and plant use are investigated later this year as discussed above, the depreciation rate should not be changed and should remain at 2.00% with an annual expense of \$245,003.

#### *Amortizations*

The proposed amortization for Account Nos. 391, 393, 394, 395, 397, and 398 increases annually by \$848,843 to \$2,598,813. Many changes can be linked to changes in Customer Service. Account 391, Furniture and Office Equipment, includes additions for modular work stations, computer equipment and software upgrades. Account 397, Communications Equipment, includes shorter lives for telephone and radio systems. It reflects the Company's share of the new call center investment jointly used by Intermountain Gas, Cascade Gas and MDU North Plains. Although Staff agrees to accept 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.

## STAFF RECOMMENDATION

After thoroughly reviewing the Company's Depreciation and Amortization Accrual Rates Study, and through discussions with the Company, Staff recommends that the Commission accept the Company's proposed Amortization rates as filed, with an agreed upon overall depreciation rate of 3.05%. Staff also recommends that the Commission accept the agreed upon depreciation rates included in Attachment A, which incorporate the adjustments detailed above. Per settlement discussions, the Company will work with Staff to reevaluate the customer allocations associated with the commercial sale of LNG from the Company's Nampa LNG facility. Additionally, the Company shall include additional detail to Accounts 391 and 397 in its 2016 Amortization Study. The Company concurs with this recommendation.

Respectfully submitted this 19th day of March 2015.



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Karl T. Klein  
Deputy Attorney General

Technical Staff: Terri Carlock  
Donn English

i:umisc/comments/avug14.2kktcde comments

Intermountain Gas Company				Net Change in Annual Accruals (Depreciation Life & Rate Procedures)									
Summary of Present and Proposed Depreciation Accrual Parameters and Expenses Study Date : As of December 31, 2013				Current Study 12-31-2013		Proposed		Annual		Annual		Annual	
Line	Account	Study	Category	Account Name	Investment	Reserved	Percent	Reserved	Accrual	Accrual	Accrual	Accrual	Net
Number	Number	Category	Account Name	Balance	Investment	Reserved	Percent	Reserved	Accrual	Accrual	Accrual	Accrual	Net
(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%	2.00%	245,003	2.00%	245,003	0	0	0
2	363.60	LNG	LNG Facilities - Redburg	4,771,916	719,280	15.1%	6.74%	321,627	6.84%	326,389	4,772	4,772	4,772
3			Subtotal LNG Facilities Plant	17,022,081	10,826,383			566,630		571,402	4,772	4,772	4,772
4	365.00	ROW	Right of Way	773,903	320,963	41.5%	2.11%	16,328	2.17%	16,794	465	465	465
5	366.00	TCS	Structures and Improvements	77,152	21,127	27.4%	6.44%	4,969	6.21%	4,791	(178)	(178)	(178)
6	367.00	TMN	Transmission Mains	68,806,581	35,068,023	51.0%	2.82%	1,940,346	2.68%	1,844,016	(96,330)	(96,330)	(96,330)
7	368.00	TCS	Compressor Equipment	1,730,359	(387,599)	-22.4%	4.75%	44,517	6.71%	121,026	76,509	76,509	76,509
8	370.00	TCE	Communication Equipment	714,440	752,495	105.3%	-0.04%	(296)	-0.03%	(214)	72	72	72
9			Subtotal Transmission Plant	72,102,435	35,775,008	49.6%	2.78%	2,005,875	2.75%	1,986,413	(19,462)	(19,462)	(19,462)
10	374.00	LRT	Land Rights	423,098	259,626	61.4%	1.79%	7,573	1.72%	7,277	(296)	(296)	(296)
11	375.00	STR	Structures and Improvements	18,864	19,736	104.5%	0.38%	72	0.11%	21	(51)	(51)	(51)
12	376.00	MNS	Mains	146,556,663	95,174,372	64.9%	2.58%	3,783,742	2.25%	3,298,775	(483,967)	(483,967)	(483,967)
13	378.00	MRG	Regulator Station Equipment	6,957,266	2,399,366	34.5%	2.79%	194,108	3.07%	213,588	19,480	19,480	19,480
14	380.00	SVC	Services	136,202,219	82,372,319	60.5%	2.42%	3,296,084	2.67%	3,636,599	340,505	340,505	340,505
15	381.00	MTR	Meters	22,341,851	11,745,278	51.2%	1.78%	408,365	1.89%	433,601	25,236	25,236	25,236
16	381.20	ERT	Electronic Meter Reading	16,926,213	10,315,108	60.9%	14.22%	2,406,907	14.22%	2,406,907	0	0	0
17	382.00	MTI	Transmitter (ERT) Units	11,042,724	4,644,841	42.1%	1.85%	204,290	2.31%	255,087	50,797	50,797	50,797
18	382.20	ERI	Meter Installations	2,108,525	1,456,940	69.1%	12.63%	266,307	11.88%	250,493	(15,814)	(15,814)	(15,814)
19	383.00	HRG	House Regulators	5,759,218	2,635,329	45.8%	1.89%	108,849	1.96%	112,881	4,032	4,032	4,032
20	384.00	HRI	House Regulators - Installation	6,081,453	1,932,952	31.8%	2.15%	130,751	2.17%	131,968	1,217	1,217	1,217
21	385.00	IMR	Regulator Station - Industrial	9,841,693	5,438,881	55.3%	2.65%	260,805	2.69%	264,742	3,937	3,937	3,937
22			Subtotal Distribution Plant	364,959,787	218,394,749	59.8%	3.03%	11,067,863	3.02%	11,012,939	(54,924)	(54,924)	(54,924)
23	390.10	GSI	Structures and Improvements	16,160,548	6,413,696	39.7%	2.33%	376,541	2.31%	373,309	(3,232)	(3,232)	(3,232)
24	392.10	GTR	Transportation Equipment	7,015,635	2,768,772	39.5%	7.42%	520,560	8.61%	604,046	83,486	83,486	83,486
25	396.00	GPE	Power Operated Equipment	1,283,685	295,185	23.0%	8.30%	106,562	5.39%	69,201	(37,361)	(37,361)	(37,361)
26			Subtotal General Plant	24,460,068	9,477,653	38.7%	4.10%	1,003,693	4.28%	1,046,556	42,893	42,893	42,893
27			Total Depreciable Plant	478,544,370	274,473,793	57.4%	3.06%	14,644,031	3.05%	14,617,310	(26,721)	(26,721)	(26,721)

Depreciation Rates 12-31-2013

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

## Present Depreciation Parameters (Depreciation Life &amp; Rate Procedures)

Line Number	Account Number	Study Category	Account Name	Current Study 12-31-2013				Percent Based	Retirement	Life (h)	Age (i)	Life (j)	Average Remaining	Net Annual	Annual Accrual	Annual Accruals (m)
				Investment Balance	Investment	Reserved	Balance (e)									
			(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	361.00	LNG	LNG Facilities - Nampa	12,250,165	10,107,103	82.5%	R5.0	34.6	27.2	15.0	-20.80%	2.00%	245,003			
2	363.60	LNG	LNG Facilities - Rexburg	4,771,916	719,280	15.1%	R5.0	18.9	2.5	17.4	-15.00%	6.74%	321,627			
3			Subtotal LNG Facilities Plant	17,022,081	10,826,383									0	566,630	
4	365.00	ROW	Right of Way	773,903	320,963	41.5%	R5.0	41.8	13.5	28.2	0.00%	2.11%	16,329			
5	366.00	TCS	Structures and Improvements	77,152	21,127	27.4%	R3.0	30.7	24.5	14.6	-5.00%	6.44%	4,969			
6	367.00	TMN	Transmission Mains	68,806,581	35,068,023	51.0%	S5.0	50.6	25.7	25.6	-47.00%	2.82%	1,940,346			
7	368.00	TCS	Compressor Equipment	1,730,359	(367,599)	-22.4%	R3.0	15.0	0.0	15.0	0.00%	4.75%	44,517			
8	370.00	TCE	Communication Equipment	714,440	752,495	105.3%	L3.0	38.1	29.4	10.0	-5.00%	-0.04%	(286)			
9			Subtotal Transmission Plant	72,102,435	35,775,008	49.6%		47.6	25.0	24.6	-42.26%	2.78%	2,005,875			
10	374.00	LRT	Land Rights	423,098	259,626	61.4%	R5.0	50.5	28.3	23.3	0.00%	1.79%	7,573			
11	375.00	STR	Structures and Improvements	18,864	19,736	104.6%	R5.0	49.4	44.8	4.7	-5.00%	0.38%	72			
12	376.00	MNS	Mains	146,656,663	95,174,372	64.9%	R4.0	59.0	20.8	38.8	-61.00%	2.58%	3,783,742			
13	378.00	MRG	Regulator Station Equipment	6,957,266	2,399,366	34.5%	R3.0	37.3	15.9	22.9	-10.00%	2.79%	194,108			
14	380.00	SVC	Services	138,202,219	82,372,319	60.5%	R2.0	54.8	16.1	39.2	-53.00%	2.42%	3,296,094			
15	381.00	MTR	Meters	22,941,851	11,745,278	51.2%	R4.0	43.2	16.8	27.2	0.00%	1.76%	408,365			
16	381.20	ERT	Electronic Meter Reading	16,926,213	10,315,108	60.9%	R3.0	11.8	6.9	4.9	0.00%	14.22%	2,406,907			
17	382.00	MTI	Transmitter (ERT) Units	11,042,724	4,644,841	42.1%	R3.0	43.6	16.6	27.7	0.00%	1.85%	204,290			
18	382.20	ERI	Meter Installations	2,108,525	1,456,940	69.1%	R3.0	12.3	7.4	4.9	0.00%	12.63%	266,307			
19	383.00	HRG	House Regulators	5,759,218	2,635,329	45.8%	R3.0	44.0	17.1	27.9	0.00%	1.89%	108,849			
20	384.00	HRI	House Regulators - Installation	6,081,453	1,932,952	31.8%	R3.0	42.7	10.3	32.8	0.00%	2.15%	130,751			
21	385.00	IMR	Regulator Station - Industrial	9,841,693	5,438,881	55.3%	R2.0	33.3	15.8	18.8	-5.00%	2.65%	266,805			
22			Subtotal Distribution Plant	364,959,787	218,394,749	59.8%		44.9	17.5	29.7	-35.28%	3.03%	11,067,863			
23	390.10	GSI	Structures and Improvements	16,160,548	6,413,696	39.7%	R2.0	37.1	13.7	25.2	5.00%	2.33%	376,541			
24	392.10	GTR	Transportation Equipment	7,015,635	2,768,772	39.5%	L3.0	11.2	6.2	5.7	5.00%	7.42%	520,560			
25	396.00	GPE	Power Operated Equipment	1,283,885	295,185	23.0%	R3.0	15.3	8.5	7.4	15.00%	8.30%	106,562			
26			Subtotal General Plant	24,460,068	9,477,653	38.7%		21.3	11.3	13.2	5.73%	4.10%	1,003,663			
27			Total Depreciable Plant	478,544,370	274,473,793	57.4%		42.1	18.4	26.7	-31.20%	3.06%	14,044,031			

Depreciation Rates 12-31-2013



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				Average				Annual			
				Investment Balance	Reserved Investment	Percent Reserved	Depreciation	Life (h)	Life (h)	Age (y)	Life (h)	Substance (f)	Rate (m)	Accrual	Annual
				(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 - Roxburg	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	66,806,581	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	6,857,266	2,399,365	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	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	Transmitter (ERT) Units	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	Meter Installations	2,106,525	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%	2.68%	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	1,283,865	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	

Depreciation Rates 12-31-2013

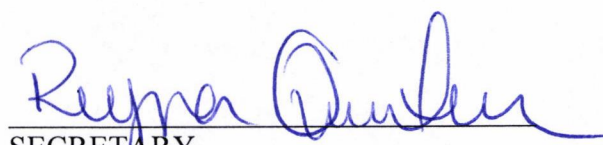


## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19<sup>th</sup> DAY OF MARCH 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. INT-G-14-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

MICHAEL P McGRATH  
DIR – REGULATORY AFFAIRS  
INTERMOUNTAIN GAS CO  
PO BOX 7608  
BOISE ID 83707  
E-MAIL: [mike.mcgrath@intgas.com](mailto:mike.mcgrath@intgas.com)

RONALD L WILLIAMS  
WILLIAMS BRADBURY PC  
1015 W HAYS ST  
BOISE ID 83702  
E-MAIL: [ron@williamsbradbury.com](mailto:ron@williamsbradbury.com)

  
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SECRETARY