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BEFORE THE IDAHO PUBLIC UTILITES COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
INTERMOUNTAIN GAS COMPANY FOR	)	
THE AUTHORITY TO CHANGE ITS RATES	)	Case No. INT-G-16-02
AND CHARGES FOR NATURAL GAS	)	
SERVICE TO NATURAL GAS CUSTOMERS	)	
IN THE STATE OF IDAHO	)	
	)	

DIRECT TESTIMONY OF JACOB DARRINGTON

FOR INTERMOUNTAIN GAS COMPANY

August 12, 2016

I. INTRODUCTION

Q. Please state your name, business address, and present position with Intermountain Gas Company.

A. My name is Jacob Darrington. I am employed by Intermountain Gas Company (" Intermountain" or "the Company") as a Regulatory Analyst. My business address is 555 South Cole Road, Boise, Idaho 83707.

Q. Would you please describe your education and professional experience.

A. I graduated from Boise State University in May 2011 with a Bachelor of Arts Degree in Accounting-Finance. In January 2012, I began work at Deloitte Tax as a Tax Consultant where I prepared federal and multi-state tax returns for businesses and high-net worth individuals. Additionally, I worked as a tax specialist as a part of the audit team to help with auditing the provision for income taxes for a regulated utility. I earned my CPA license in the summer of 2013. I continue to keep my CPA license active in the state of Idaho. In the fall of 2013 I was promoted to Tax Senior at Deloitte and took on the additional responsibility of reviewing tax returns of other Tax Consultants. In April of 2015, I took a position with Intermountain Gas Company as a Regulatory Analyst. In July of 2015 I attended the Regulatory Rate School in Chicago sponsored by the American Gas Association.

Q. Would you briefly describe your responsibilities in your current position?

A. Yes. As a Regulatory Analyst, my primary responsibility as it relates to this proceeding includes the gathering, analyzing, and coordinating of data from various departments throughout the Company required for the preparation and calculation of the revenue requirement and rate base.

Q. What is the purpose of your testimony in this docket?

A. My testimony will cover two main areas. First, I will address Intermountain's regulatory adjustments to the Company's rate base. Second, I will discuss the Company's adjustments to operating revenues and expenses. Third, I will discuss Intermountain's revenue requirement.

Q. What is the Company's proposed test year for this case?

A. As described by Company witness Dedden, Intermountain is proposing a test period reflecting six months actual and six months projected data for the twelve-months ending December 31, 2016.

Q. Does the Company anticipate adjusting the test period projections later in this docket?

A. Yes. The Company will provide to the Idaho Public Utilities Commission ("Commission") monthly updates to the six months of projections for the period July 1, 2016, through December 31, 2016, to reflect actual data.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits, which are described in my testimony:

Exhibit No. 12 Rate base

Exhibit No. 13 Rate Base Components and Adjustments

Exhibit No. 14 Operating Income

Exhibit No. 15 Adjustments to Operating Income

Exhibit No. 16 Summary Revenue Requirement Calculation

II. RATE BASE

Q. What exhibits do you have that summarize the Company's thirteen-month average rate base and explains the adjustments to rate base?

A. Exhibit 12 is composed of two tables that shows summaries of the unadjusted components of rate base as presented by Company witness Dedden as well as adjustments to those components. Exhibit 13 is a series of worksheets that describe each of the adjustments made to rate base.

Q. Is the thirteen-month average method used for all rate base items?

A. Yes, with the exception of the Cash Working Capital allowance, all items included in the determination of rate base have been calculated using the average of thirteen monthly balances. The average of the thirteen monthly balances reflects the level of investment maintained by the Company during the course of the year and is intended to normalize changes in the balances that occur during the year. The derivation of the Cash Working Capital allowance is discussed later in this testimony.

Q. What is Intermountain's projected gas plant in service as of December 31, 2016?

A. The thirteen-month average level of gross investment in gas utility plant in service included in the Company's rate base as of December 31, 2016 is $596,065,559, as shown on Exhibit 12, page 1, column (d), line 2. The thirteen-month average calculation of this figure can be found on Exhibit 13, page 1, column (e), line 28.

Q. Does this amount of gross plant investment as of December 31, 2016 reflect any adjustments?

A. Yes. The balance of gross plant investment reflects an adjustment to remove the Asset Retirement Obligations ("AROs") in the amount of $16,555,572 as shown on Exhibit 12, page 2, column (b), line 2 and Exhibit 13, page 1, column (c).

Q. What is the total amount of Intermountain' s projected accumulated provisions for depreciation and amortization?

A. Intermountain's projected accumulated depreciation and amortization as of December 31, 2016 is $308,450,846, as shown on Exhibit 12, page 1, column (d), line 3. The thirteen-month average calculation of this figure can be found on Exhibit 13, page 2, column (f), line 28.

Q. Are you proposing any adjustments be made to the accumulated reserve for depreciation and amortization?

A. Yes. The accumulated provision balances have been adjusted to remove the AROs and Retirement Work in Progress in the amount of $4,303,085 and $146,265, respectively, as shown on Exhibit 12, page 2, column (b) and (c), line 3 and detailed on Exhibit 13, page 2, column (c) and (d).

Q. How was the level of net plant included in rate base calculated?

A. Net plant included in rate base is $287,614,713, and was calculated by subtracting the total amount of adjusted accumulated depreciation from the total amount of adjusted gross plant as shown on Exhibit 12, page 1, column (d), line 4.

Q. What level of Materials and Supplies was included in rate base?

A. Intermountain included in rate base a thirteen-month average of the materials and supplies balance of $3,149,131, as shown on Exhibit 12, page 1, column (d), line 5 and as calculated on Exhibit 13, page 3, column (e), line 28.

Q. Did the Company include any gas storage inventory in rate base?

A. Yes. Intermountain included a thirteen-month average of the gas storage inventory balance of $3,195,613 in rate base, as shown on Exhibit 12, page 1, column (d), line 6 and as calculated on Exhibit 13, page 4, column (f), line 28.

Q. Does this amount of gas storage inventory reflect any adjustments?

A. Yes. The amount reflects two adjustments to the gas storage inventory held at the Company's Nampa storage facility. The first adjustment of $856,019, as seen on Exhibit 12, page 2, column (d), line 6 and Exhibit 13, page 4, column (c), removes the gas storage inventory associated with non-utility sales of liquefied natural gas ("LNG"). The second adjustment of $3,890, as seen on Exhibit 12, page 2, column (e), line 6 and Exhibit 13, page 4, column (d), removes those costs associated with the utility portion of gas storage inventory at the Nampa storage facility in excess of 2 million gallons.

Q. Why is the established level of utility storage gas at the Nampa storage facility set to 2 million gallons?

A. This is the amount of LNG required to 1) maintain operational and training requirements at the Nampa and Rexburg LNG Facilities, 2) maintain an adequate supply of LNG to provide for the annual "boiloff" gas that naturally occurs with the warming of LNG and 3) maintain minimum LNG levels to ensure the integrity of the storage tank.

Q. Is Cash Working Capital included in rate base?

A. Yes. Cash working capital ("CWC") is the amount of funds required to finance the day-to-day operations of the Company. A CWC requirement represents the amount of cash the Company needs to keep on hand to meet its cash operating expenses. The test year rate base includes $1,032,688 for CWC as shown on Exhibit 12, page 1, column (d), line 7 and calculated on Exhibit 13, page 5, column (e), line 18. The CWC calculation is based upon a lead-lag study.

Q. What is a lead-lag study?

A. A lead-lag study analyzes the lag time between the date customers receive service and the date that customers' payments are available to the Company. This lag is offset by a lead time during which the Company receives goods and services, but pays for them at a later date. The "leads" and "lags" are both measured in days. The dollar-weighted lead and lag days are then divided by 365 to determine a daily CWC factor. This CWC factor is then multiplied by the annual test year cash revenues and expenses to determine the amount of CWC required for operations.

Q. What is the amount of accumulated deferred income taxes ("ADIT") deducted from rate base?

A. The level of ADIT deducted from rate base is $50,172,477, as shown on Exhibit 12, page 1, column (d), line 8. The calculation of this number is shown on Exhibit 13, page 6, column (k), line 28.

Q. What is ADIT and why is it a rate base adjustment?

A. Deferred income taxes arise when income tax amounts provided for book purposes differ from the amount of taxes due and payable in the test period. The primary cause of this tax difference is the straight line depreciation rates used for ratemaking purposes, versus the accelerated depreciation rates used when calculating state and federal income tax obligations. For a utility with a growing rate base, there is generally a higher depreciation expense for tax purposes than for regulatory book purposes, causing the taxes computed for regulatory books (and thus, included in revenue requirement) to be more than the taxes actually payable, in the early years of the asset's life. In later years, the situation reverses itself. The accumulated balance of these deferred taxes is, in essence, either a source or use of funds available to the company. The net balance of accumulated deferred taxes has been deducted from rate base.

Q. Please explain how the level of ADIT was determined.

A. ADIT was analyzed on an item-by-item basis to determine whether the ADIT was attributable to items included in rate base. Amounts attributable to an asset or liability in rate base have been reflected in the ADIT adjustment. Additional adjustments were made to remove state deferred income taxes and to comply with various IRS rules related to deferred taxes. These adjustments total $13,183,858 and are shown on Exhibit 12, page 2, columns (f) – (l), line 8 and on Exhibit 13, page 6, columns (c) – (i).

Q. How has Intermountain accounted for advances in aid of construction in the Company's rate base?

A. Advances in aid of construction in the amount of $7,893,171 have been deducted from rate base, as shown on Exhibit 12, page 1, column (d), line 9 and calculated on Exhibit 13, page 7, column (c), line 28. This represents the thirteen-month average balance of cash advances received from customers as of December 31, 2016 for construction attributable to Intermountain's operations. Similar to ADIT, the advances in aid of construction represent a source of funds available to the Company and appropriately offset the plant in service balances reflected in rate base.

Q. What is Intermountain's proposed test year rate base?

A. The Company's test year rate base, as of December 31, 2016, adjusted for the known and measurable adjustments discussed above, is projected to be $236,926,497, as shown on Exhibit 12, page 1, column (d), line 10.

Q. Does this conclude your testimony as it pertains to the Company's rate base?

A. Yes.

III. OPERATING REVENUES AND EXPENSES

Q. What exhibits do you have that summarize the Company's operating revenues and expenses and the adjustments made thereto?

A. Exhibit 14 presents the unadjusted operating revenues and expenses as presented by Company witness Dedden, regulatory adjustments to those operating revenues and expenses, and the resulting Company proposed operating revenues and expenses. Exhibit 15 presents the detail supporting the proposed regulatory adjustments to Company's operating revenues and expenses.

Q. What is the unadjusted projected level of operating revenues and expenses for the twelve months ended December 31, 2016?

A. As presented by Company witness Dedden, for the twelve months ended December 31, 2016, the Company projects total operating revenues to be $236,530,903, as shown on Exhibit 14, page 1, column (b), line 3. The Company projects total operating expenses to be $235,335,918 as shown on Exhibit 14, page 1, column (b), line 24. This produces unadjusted net operating income of $1,194,985 as shown on Exhibit 14, page 1, column (b), line 25.

Q. Are you proposing any adjustments to the test year gas operating revenues and expenses?

A. Yes. Exhibit 14, page 2 lists each proposed adjustment to test year gas operating revenues and expenses.

Q. Please describe the Unbilled Adjustment shown on Exhibit 14, page 2, column (b), lines 1 and 5.

A. This adjustment removes unbilled revenues and cost of gas expenses from the determination of the revenue requirement. This unbilled adjustment is the result of the difference in the timing of when gas is provided to our customers and when those customers are billed for the gas used. To create a proper matching of gas costs and revenues for the test year, unbilled revenues and cost of gas have been excluded from the calculation of the revenue requirement. The adjustment increases revenues by $27,605,926 and cost of gas expenses by $21,246,004, as shown on Exhibit 15, page 1, column (d), lines 16 and 17. This adjustment pertains only to the year-to-date actual data through June 2016. As discussed by

Company witness Dedden, the forecast period July through December 2016 does not include unbilled revenues and cost of gas expenses.

Q. Is the Company proposing an adjustment to revenues and expenses associated with non-utility LNG sales from the Nampa facility?

A. Yes. Non-utility sales of liquefied natural gas have been removed from the Company's test year revenues and cost of gas expenses, as shown on Exhibit 14, page 2, column (c), lines 1 and 5 and Exhibit 15, page 2, column (d), lines 1 and 2. The result of the adjustment reduces operating revenues by $1,813,230 and related cost of gas expenses by $1,461,140. This adjustment eliminates revenues and cost of gas expenses not associated with the provisioning of regulated gas services to Intermountain's customers.

Q. Please explain the franchise tax adjustment shown on Exhibit 14, page 2, column (d), lines 1 and 19.

A. Franchise taxes are not recovered through base rates, and thus have been removed from the Company's revenues and expenses for the test year. As seen on Exhibit 15, page 3, column (d), lines 1 and 2, the adjustment reduces the Company's test year revenues by $7,087,154 and expense by $7,087,860.

Q. Please describe the proposed lost gas expense adjustment shown on Exhibit 14, page 2, column (e), line 5.

A. The purpose of this adjustment is to reflect the current level of lost gas expense. This adjustment reduces operating expenses by $803,928. Exhibit 15, pages 4 and 5 support the calculation of this adjustment.

Q. Please explain the proposed normalizing adjustment shown on Exhibit 14, column (f), lines 1 and 5.

A. This adjustment represents the difference between test year revenues and cost of gas and normalized revenues and costs of gas. Normalized revenues and cost of gas reflect the effects from both weather normalization and customer rate class migrations. The process for determining weather normalization is addressed by Company witness Blattner. Customer rate class migrations refers to the Company's general service, large volume, or transport customers who have changed rate classes at some point during the test year. The Company removed these customers' actual and forecasted volumes, revenues, and cost of gas from their previous rate class and included them for a full twelve month period in their new rate class.

As shown on Exhibit 15, page 6, column (b), lines 10 and 11, this adjustment reduces operating revenues by $442,726 and operating expenses by $336,443. Supporting calculations are presented on Exhibit 15, pages 7-16.

Q. Can you describe briefly Intermountain's Non-Executive Incentive Compensation Plan?

A. Yes. Intermountain's plan consists of three components. The first component is based on achieving a target level of net income. The second and third components are based on cost control and customer satisfaction goals. Each component is worth an equal portion of the incentive payment. There is also a fourth goal -- for directors only -- based on a review of the Company's Employee Survey with employees during the year.

Q. Is the Company proposing an adjustment to incentive compensation expense?

A. Yes. Exhibit 14, page 2, column (g), line 9, 10, 11, 13, 14, and 17 and Exhibit 15, page 17, column (b), lines 8 and 9 remove the portion of incentive compensation expense that is based on the Company achieving a target level of net income. The remaining portion of incentive compensation expense relates to the metrics described above. These metrics are designed to benefit the Company's customers by incentivizing Company employees to control costs while maintaining a safe, reliable system and a high level of customer satisfaction. The adjustment reduces incentive compensation expense by $373,269 and payroll taxes by $32,728 for a total adjustment to operating expenses of $405,997.

Exhibit 15, page 18 provides supporting calculations that are reflected on page 17 of the Exhibit.

Q. Is the Company proposing an adjustment to the test year level of expenses associated with Executive Compensation?

A. Yes. Exhibit 14, page 2, column (h), line 14, 15, and 17 and Exhibit 15, page 19, column (d), lines 1 and 2 remove all Supplemental Executive Retirement Plan compensation, Supplemental Income Security Plan compensation and executive incentive compensation expenses. The Company has chosen to not charge its customers for these expenses and has therefore removed them from the determination of the revenue requirement. The Executive Compensation adjustment reduces operating expenses by $1,052,398 and payroll taxes by $68,332.

Exhibit 15, pages 20 and 21 provide supporting calculations that are reflected on page 19 of the Exhibit.

Q. Has the Company removed revenues and expenses associated with non-utility activities?

A. Yes. Exhibit 14, page 2, column (i), lines 2 and 15 and Exhibit 15, page 22, column (d), lines 4 and 10 remove from revenues and expenses those costs associated with non-utility activities. Non-utility revenues include miscellaneous revenue and interest income related to the non-qualifying executive compensation. The non-utility expenses include donations, lobbying and Arid Club dues. The "Other Revenue and Expense" adjustment increases other revenues by $6,791 and reduces operating expenses by $256,321.

Q. Is the Company proposing to remove interest expense from the test year expenses?

A. Yes. Exhibit 14, page 2, column (j), line 20 and Exhibit 15, page 23, column (d), line 1 reduce operating expenses by $4,348,423. The interest expense for the test period used to determine income tax expense will be the weighted average cost of debt included in the Company's cost of capital multiplied by average rate base.

Q. Has the Company adjusted the test year level of income tax expense?

A. Yes. Exhibit 14, page 2, column (k), line 23 and Exhibit 15, page 25, column (c), line 78 increase test year income tax expense by $2,544,743. Exhibit 15, pages 24 and 25 present the entire test year income tax expense calculation and include the adjusted level of revenues and expenses discussed above as well as various permanent and temporary timing differences.

Q. What are the adjusted level of revenues and operating expenses that result from the adjustments you are proposing?

A. As shown on Exhibit 14, page 1, column (d), lines 3 and 24, the adjusted level of operating revenues and expenses for the twelve months ended December 31, 2016 are $254,800,510 and $243,305,823, respectively.

Q. Does that conclude your testimony as it pertains to the Company's operating revenues and expenses?

A. Yes it does.

IV. REVENUE REQUIREMENT

Q. Please explain how the adjusted net income was converted to the required level of operating revenues.

A. Exhibit 16, page 2, shows the calculation of the conversion factor, which is applied to the required net income to produce the required revenue increase. The conversion factor takes into account revenue-sensitive items that change as revenue changes, including uncollectibles, the Commission's regulatory fee, Idaho state income taxes, and federal income taxes. As shown on Exhibit 16, page 2, column (c), line 9, the conversion factor was determined to be 1.67055.

Q. Please summarize the requested revenue requirement.

A. Page 1 of Exhibit 16 presents the calculation of the Company's revenue deficiency. Based upon an average rate base of $236,926,497, adjusted operating income of $11,494,687, and a weighted average cost of capital of 7.42%, as presented by Company witness Chiles, the Company's projected after-tax operating income at proposed rates is $17,579,946. Consequently, the Company's revenue deficiency for the test period ending December 31, 2016 is $10,165,700. This revenue deficiency requires an overall increase in rates to the Company's customers of 4.04%.

Q. Does this conclude your direct testimony?

A. Yes it does.