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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 AND CHARGES FOR NATURAL GAS SERVICE TO NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	)))))))	Case No. INT-G-16-02

DIRECT TESTIMONY OF MICHAEL MCGRATH

FOR INTERMOUNTAIN GAS COMPANY

August 12, 2016

Q. Please state your name, title and business address.

A. My name is Michael McGrath. I am the Director of Regulatory Affairs at Intermountain Gas Company. My business address is 555 S. Cole Road, Boise, Idaho 83707.

Q. Mr. McGrath, please summarize your educational and professional experience.

A. I graduated from Brigham Young University with a Bachelor of Science Degree in Business. I also have an MBA from Boise State University. I have attended, and graduated from, numerous educational opportunities that focused on regulatory ratemaking sponsored by the American Gas Association. I have been with Intermountain Gas Company for over 30 years serving in progressively responsible positions that included regulatory rate making, financial forecasting and planning, industrial marketing and gas supply.

Q. What is the purpose of your testimony?

A. First I will discuss Intermountain's proposal to implement a fixed cost collection mechanism, in order to bring a level of consistency or stability to Company revenues, from year-to-year. Second, I will discuss the tariffs that are attached to the Application, pointing out tariff changes as well as describing the new tariffs.

Q. Addressing your first point, please describe the Company's proposed approach to fixed cost collection.

A. The Company is proposing to implement a Fixed Cost Collection Mechanism ("FCCM") that will break the link between Intermountain's (a) margin from its residential and commercial customers and, (b) the natural gas deliveries to these same core market customers. As a result of the FCCM, the traditional link between Intermountain's gas deliveries and earnings will be broken. Therefore, Intermountain's revenues and earnings will be unaffected by variations in the quantities of gas that it delivers to its residential and commercial customers. Each month, the Company will reconcile the difference between (1) the Company's actual Fixed Cost Collection Margin per customer, by rate class, and (2) the Company's Allowed Fixed Cost Collection Margin per customer for that month for the same rate class, as approved by the Commission in this proceeding.

Q. Please explain the term that you used, "Fixed Cost Collection Margin."

A. The term Fixed Cost Collection Margin refers to the distribution margin that the Company relies on to pay for the fixed costs of providing safe and reliable service to its customers. The Fixed Cost Collection Margin is the margin associated with the distribution cost per therm for the applicable rate schedules. Equivalently, the Fixed Cost Collection Margin can also be calculated as total sales service margin less PGA revenues and less revenues recovered from the customer charge for the applicable rate schedules.

Q. Which rate schedules will be effected by the Company's proposed Fixed Cost Collection Mechanism?

A. The Company's proposed FCCM will apply to Rate Schedules RS, Residential Service; GS-1, General Service; IS-R, Residential Interruptible Snowmelt Service; and IS-C, Small Commercial Interruptible Snowmelt Service.

In this testimony, references to Rate Schedule RS or Residential Service will also include Rate Schedule IS-R, Residential Interruptible Snowmelt Service and references to Rate Schedule GS-1 or General Service will also include Rate Schedule IS-C, Small Commercial Interruptible Snowmelt Service.

Q. Please explain why the Company is proposing to implement this FCCM.

A. The margin that the Company relies on to pay for the Company's fixed costs to (1) operate and maintain its system and (2) expand and replace aging portions of its distribution system has been declining over time, as our customer's homes and businesses continue to use progressively less natural gas as a result of revisions to building code standards, more efficient appliances as well as other customer behaviors that conserve energy. While the Company's proposal to implement a Demand Side Management (DSM) program adds measurable value to our customers and the environment, these same DSM programs will, nonetheless, exacerbate an already decreasing usage, and therefore margin, per customer. The FCCM that the Company is proposing will allow the Company to effectively promote and advocate for its proposed DSM program without the financial disincentives that currently exist, with margins directly connected to sales volumes.

Q. In addition to the declining usage per customer resulting from energy conservation measures, are there other determinants or factors than can also influence the natural gas sales to the Company's Rate Schedule RS and GS-1 customers?

A. Yes. The Company's RS and GS-1 Fixed Cost Collection Margin can vary from year-to-year due to fluctuations in the deliveries of natural gas (measured in therms) caused by variability in the weather as well as changes in the local, regional, and national economy. The deviations in deliveries caused by these determinants, however, are generally erratic and short-term in nature.

Q. How will the Allowed Fixed Cost Collection Margin per customer for Rate Schedules RS and GS-1 be determined?

A. Each month, the Company will reconcile the difference between (1) the Company's actual Fixed Cost Collection Margin per customer, by the aforementioned rate classes and, (2) the Company's Allowed Fixed Cost Collection Margin per customer for that month for those same rate classes, as approved by the Idaho Commission in this proceeding. The initial Allowed Fixed Cost Collection Margin per customer for each month will be calculated as the monthly Fixed Cost Collection Margin divided by monthly billed customers, separately for Rate Schedules RS and GS-1, based on the Distribution Cost per therm rates and billing determinants[1] that are approved in this proceeding, as determined by the Idaho Commission, and calculated in the Company's compliance filing.

If the Distribution Cost per therm rates for Rate Schedule RS or Rate Schedule GS-1 are revised at any time after the rates in this proceeding are approved, the Allowed Fixed Cost Collection Margin per customer will be accordingly revised based on the new Distribution Cost per therm rates for Rate Schedule RS and Rate Schedule GS-1, and the billing determinants that are approved in this proceeding.

[1] For these rate schedules, "Billing Determinants" is the count of monthly bills (or customers) and the total therms (and therms by rate block, if appropriate) that are used in a rate case, such as this proceeding INT-G-16-02, to determine the rates that are approved by the Idaho Commission.

The derivation of the initial Allowed Fixed Cost Collection Margin per customer for Rate Schedules RS and GS-1, based on the Company's proposed rates, is shown in Exhibit 27.

Q. Please explain Exhibit 27.

A. The calculation of the Monthly RS Allowed Cost Collection Margin per customer is shown on lines 1 to 9, and the calculation of the Monthly GS-1 Allowed Cost Collection Margin per customer is shown on lines 10 to 30. Because the methodologies that I used to calculate the RS and GS-1 Allowed Cost Collection Margin per customer are identical I will only explain the RS methodology. Rate Schedule RS customers and Therm sales are shown on Lines 1 and 2. Company Witness Lori Blattner also used this data to calculate the Company's proposed RS and GS-1 rates and the annual totals on Exhibit 27 are also shown on Ms. Blattner's Exhibit 20. The Company's proposed RS customer charge and volumetric rate are shown on Exhibit 27, lines 4 and 5, and the calculated margins associated with the customer charge and volumetric charge are shown on Exhibit 27, lines 7 and 8. Lastly, the monthly Allowed Cost Collection Margins per customer are shown on line 9.

Q. Please explain (a) why the FCCM will apply only to Rate Schedules RS and GS-1, and (b) why the FCCM will not apply to Rate Schedules LV-1, T-3 and T-4.

A. The Company proposes to apply the FCCM to Rate Schedules RS and GS-1 because (1) the Company's proposed DSM energy efficiency programs will initially apply to residential and general service customers, but not to the customers served by rate schedules LV-1, T-3, and T-4; (2) most of the variability in year-to-year FCCM margin that the Company experiences is associated with sales to these two rate classes; and (3) these two customer groups represent a significant portion of the Company's allocated fixed costs and, therefore, distribution margin.

I have prepared Table MM.1 below to show 2016 weather normalized deliveries and distribution margin for Intermountain's rate classes.

Table MM.1 2016 Weather Normalized Deliveries and Distribution Margin

	RS IS-R	GS-1 IS-C	LV-1	T-3	T-4	Total
Distribution margin	$53,232,253	$19,530,463	$403,987	$727,673	$9,183,113	$83,077,489
as % of total	64.1%	23.5%	0.5%	0.9%	11.1%	100.0%
Deliveries (MMBtu)	21,278,706	10,797,266	631,756	3,990,929	28,441,283	65,139,940
as % of total	32.7%	16.6%	1.0%	6.1%	43.7%	100.0%

Note: Proposed Rate Schedule RS includes current Rate Schedules RS-1 and RS-2. Proposed Rate Schedule T-4 includes current Rate Schedules T-4 and T-5.

I have prepared Table MM.2 below to show total distribution margin and volumetric margin by class, based on current rates and 2016 rate case billing determinants.

Table MM. 2 Distribution Margin and FCCM Margin at Current Rates by Proposed Class

	RS IS-R	GS-1 IS-C CNG	LV-1	T-3	T-4	Total
Distribution Margin	$53,232,253	$19,530,463	$403,987	$727,673	$9,183,113	$83,077,489
Volumetric margin	$39,048,014	$17,792,045	$403,987	$727,673	$8,731,332	$66,703,050
Volumetric as % distribution margin	73.9%	91.1%	100.0%	100.0%	95.1%	80.3%

Note: Proposed Rate Schedule RS includes current Rate Schedules RS-1 and RS-2. Proposed Rate Schedule T-4 includes current Rate Schedules T-4 and T-5.

Table 1 demonstrates that 87.6 percent of total Company distribution margin are provided by Residential Rate RS and General Service Rate GS-1 and 49.2 percent of total deliveries are made to Residential Rate RS and General Service Rate GS-1.

Q. Please describe specific elements of the FCCM.

A. The Company's proposed FCCM will recover or return annual RS and GS-1 FCCM margin shortfalls or surpluses for each FCCM Year period, defined as the 12 months October through September. The RS and GS-1 FCCM adjustment rates to be applied in the upcoming FCCM Year are calculated as the annual margin shortfalls or surpluses for the 12 months ended September plus the final reconciliation balance for the prior (October through September) FCCM Year divided by projected annual RS and GS-1 therm deliveries for the upcoming 12 months ended September. The Company will file an annual FCCM calculation prior to October 1st, using, as available, actual data and projected data for the October through September period.

Q. Please describe the FCCM calculations that you mentioned in your prior response.

A. I have prepared Exhibit 28 to provide an example of the calculations that I will explain below. Example FCCM calculations for Rate Schedules RS and GS-1 are provided on Exhibit 28, pages 1 and 2, respectively. The example "actual" monthly customers and therms that are shown on lines 1 and 2 of both pages are numbers that I created.

The Company will determine the Fixed Cost Collection Adjustment Factor ("FCCAF") prior to the start of each annual FCCM year, i.e. each 12-month period, October through September, according to the following process:

(1) For each month of the FCCM Year, the Company will calculate the monthly actual FCCM margin per customer for Rate Schedules RS and GS-1 by dividing monthly actual FCCM margin for Rate Schedules RS and GS-1 by monthly billed customers for Rate Schedules RS and GS-1. Referring to the FCCM calculations for Rate Schedule RS on Exhibit 28, page 1, monthly actual FCCM margins are shown on line 8, and the monthly actual calculated values of FCCM per customer are shown on line 11.

(2) For each month of the FCCM Year, the Company will calculate the difference between Allowed and actual FCCM margin per customer, for Rate Schedules RS and GS-1. The calculated monthly differences between allowed and actual FCCM margin per customer Rate Schedule RS are shown on Exhibit 28, page 1, line 12.

(3) For each month of the FCCM Year period, the Company will calculate FCCM margin shortfalls or surpluses by multiplying the margin per customer differences times actual customers for each rate group, by month. The calculated monthly FCCM margin shortfalls or surpluses for Rate Schedule RS are shown on Exhibit 28, page 1, line 13.

(4) The Company will calculate RS and GS-1 FCCAFs by dividing the total FCCM Year Rate Schedule-specific margin shortfall or surplus by projected therm deliveries for the upcoming FCCM Year, October through September.

The RS and GS-1 FCCAFs will also include a reconciliation of (a) the prior FCCM Year (i.e., October through September) final FCCM margin shortfall or surplus and (b) the prior FCCM Year adjustment charges or credits. Referring to Exhibit 28, page 1, the Company would calculate the FCCM Year 1 RS FCCAF by dividing the 12-month total deficiency, ($177,213; Column (M), line 13) by projected FCCM Year 2 RS therms.

Q. Please explain how actual FCCM margin per customer will be calculated.

A. Every month, actual FCCM Margin, for RS and GS-1 separately, will be determined directly from the actual booked base distribution margin on a billing month basis, minus calculated customer charge margin.

Q. Please describe the timing of FCCM calculations, filings and rate adjustments.

A. The FCCM Year adjustment factor that is in effect starting October 1st of each year will be based on the calculations related to the prior FCCM Year, that is, FCCM calculations for the prior October through September period. Each FCCM filing will also include a final reconciliation of actual and allowed FCCM margin, two FCCM Years ago. I have prepared Exhibit 29 to illustrate the timing of FCCM calculations and FCCAFs. Referring to Exhibit 29, the FCCAFs that will be in effect starting October 1 for FCCM Year 3 will be calculated based on (a) FCCM Year 2 margin shortfalls or surpluses plus (b) a final reconciliation of FCCM Year 1 margin shortfalls or surpluses and FCCM Year 1 FCCAF revenues, (c) divided by FCCM Year 3 projected delivery volumes (therms).

Q. Will the calculation of the first FCCAFs after the FCCM is approved be as depicted in Exhibit 29?

A. It is not likely that the timing of the first FCCAF will be as depicted in Exhibit 29, unless the FCCM is approved effective October 1. The initial FCCAF will become effective upon Commission approval, on the first October 1 following the effective date of the FCCM. That initial FCCAF will recover the actual and projected margin surpluses and shortfalls for each month starting with the effective date of the FCCM, through September. For example, if new rates and the FCCM are approved in this proceeding effective February 1, 2017, the first RS and GS-1 FCCAFs would become effective October 1, 2017 based on FCCM margin surpluses and shortfalls for the eight months February through September, 2017, divided by projected therm sales for October 2017 through September 2018.

Q. If the Company's base distribution rates are modified before new base rates in the Company's next base rate case become effective, will any of the FCCM calculations be modified?

A. Yes. If the Company's base distribution rates are modified before the Company's next base rate case, the Company will make a corresponding revision to the Allowed Fixed Cost Collection Margins per customer, by month. The Company will include the revised Allowed Fixed Cost Collection Margins per customer, with supporting documentation, with between-rate-case rate change filings.

Q. Has the Company prepared an FCCM tariff?

A. Yes. The Company's proposed a FCCM Tariff which is shown as Original Tariff Sheet No. 17, pages 1 through 4, which are shown on both Exhibit 30 and 31.

Q. Could you briefly describe the tariff package that implements the rates proposed by Intermountain in this case?

A. Yes. Exhibit 30, which I am sponsoring, shows the changes to Intermountain's tariffs, by striking over proposed deletions to existing tariffs and underlining additions or amendments to those existing tariffs. Exhibit 31, which I am also sponsoring, shows these same tariffs, both existing and new, in a clean format. Exhibit 31 is also shown as Attachment A to the Application.

Q. Does this conclude your testimony?

A. Yes.