Office of the Secretary
Service Date
April 28, 2017

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY TO CHANGE ITS RATES AND CHARGES FOR NATURAL GAS SERVICE IN THE STATE OF IDAHO	)))))	**CASE NO. INT-G-16-02** **ORDER NO. 33757**

This Order establishes the revenue requirement and rates for Intermountain Gas Company's natural gas service in Idaho. Intermountain Gas Company (Intermountain; Company) filed an Application with the Idaho Public Utilities Commission (Commission) on August 12, 2016, requesting authority to increase its rates by 4.06% to recover an additional $10.2 million in annual revenue for its Idaho operations. *See* Application of Intermountain Gas Company for General Rate Increase (Application) at 3.

In this Order, the Commission establishes a rate base for the Company of $235,526,788, and a revenue requirement of $264,044,909. The Commission also approves a 9.5% return on equity, and a 7.3% overall weighted cost of capital. This $4,119,055 revenue increase will increase customer rates by an average of 1.58%. Finally, we authorize the Company to implement its proposed Demand-Side Management (DSM) program, but do not approve its proposed Fixed Cost Collection Mechanism, as detailed herein.

BACKGROUND

Intermountain is a local gas distribution company (LDC) that transports and distributes natural gas in Idaho. Intermountain's parent company, MDU Resources Group, Inc. (MDU), acquired Intermountain in 2008. Intermountain filed its last general rate case in 1985. *See* Case No. U-1034-122. In its Application, the Company stated it needs to raise base rates to recover increased operating expenses and costs associated with plant that the Company added after the last rate case. The Company contends its existing rates are not fair, just, or reasonable, and do not produce a fair Rate of Return (ROR), which negatively affects the Company's ability to adequately and reliably serve its customers. Intermountain represented that, among other things, its maintenance of a safe and reliable distribution system for an expanding customer base, installation of a new Customer Service Center, and significant spending and depreciation expenses related to pipeline and infrastructure replacement have required it to ask for a general rate increase for the first time in over 30 years. The Company proposed that the new rates take effect September 12, 2016.

After the Company filed its Application, the Commission issued a Notice of Application and Notice of Intervention Deadline and Order suspending the proposed effective date and inviting interested parties to intervene in the case. The following parties intervened: Community Action Partnership Association of Idaho (CAPAI); the Northwest Industrial Gas Users (NIGU); the Idaho Conservation League (ICL); the Northwest Energy Coalition (NWEC); the Amalgamated Sugar Company, LLC (Amalgamated); the Snake River Alliance (SRA); and the Federal Executive Agencies (FEA). *See* Order Nos. 33608, 33611, 33613, 33614, and 33630.

The Commission then issued a Notice of Schedule, Notice of Public Workshop, and Notice of Technical Hearing, and found good cause to further suspend the proposed effective date of the Company's new rates until May 11, 2017, as a result of the parties' negotiated schedule. Order No. 33648. Staff subsequently convened the public workshop for customers. Additionally, the Commission convened a March 2, 2017 public hearing to receive testimony from the public and customers. No customers or members of the public attended the public hearing or workshop, although the Commission did receive written comments from two customers.[1]

The Commission held a technical hearing for the Company, Commission Staff, and intervening parties on March 1-3, 2017. All parties, save the Snake River Alliance and the Federal Executive Agencies, appeared and were represented by counsel at the technical hearing.

APPLICATION

The Company originally requested that the Commission approve an overall return on rate base of 7.42%, utilizing a 9.90% return on common equity (ROE) and a 4.94% cost of debt on an adjusted Idaho retail rate base of $236,926,497. Tr. at 124. The result would be an additional annual revenue requirement of $10,165,700, 4.06% for its Idaho operations. The proposed increase is based upon normalized results of operations for the test year ending December 31, 2016. *Id.* at 237, ll. 14-17. The Company subsequently revised its request at the technical hearing, based on adjusted test year data and certain party-proposed adjustments, to

[1] The two public comments stated that an increase in rates for customers who have no other option for winter heating would be "absurd," based on the low price of natural gas, however, the comments state that if there is a rate increase, it should be distributed at the same rate to all Intermountain customers.

modify its requested annual revenue requirement by $9,351,615 million, a revenue deficiency the Company states would require an overall increase in customer rates of 3.70%. Tr. at 263. The Company maintained the requested ROE of 9.90%. *Id.* at 98. Test period data was based on actual 2016 account information for January through September 2016, and forecasted data from October through December 2016. Tr. at 1059.

Based on a class cost-of-service study (COS Study) filed with its Application, Intermountain proposed rate increases for its various customer classes. Tr. at 332-356. Intermountain's proposed rates would, on average, increase customers' bills by: (1) $2.31 per month (4.93%) for customers who use gas for space and water heating; (2) $1.16 per month (3.26%) for customers who use natural gas for space heating only; and (3) $12.16 per month (6.29%) for commercial customers. *Id.* at 35. Intermountain asserted it notified the public about its proposed rate increases by distributing a Press Release and Customer Notice on or about August 12, 2016. *See* Application at 4.

Besides increasing its base rates, Intermountain also sought to: (1) merge its residential customers (i.e., customers on rate schedules RS-1 and RS-2) into a single rate schedule; (2) modify the General Services-1 (GS-1) rate structure so that rates charged to the GS-1 customer class more closely align with Intermountain's costs and reduce subsidization; (3) eliminate seasonal rate variation between summer and winter for residential and general service customers; (4) combine two rate schedules into a single Industrial Firm Transportation Service (T) customer class; (5) add a demand charge to Large Volume Firm Sales Service (LV-1) to cover the costs of distributing gas to that class; and (6) apply the current Rate Schedule T-5, which includes a demand charge, to the newly proposed Rate Schedule T-4 rate structure. Tr. at 358-359.

In addition, Intermountain asked to implement a DSM program that would help customers decrease their need for gas through conservation, and thus decrease the amount of gas the Company would otherwise have to buy from a natural gas wholesaler to supply those needs. Specifically, the Company proposed to introduce a new Energy Efficiency Rebate Program under which the Company would provide rebates to customers who install high-efficiency natural gas equipment and have ENERGY Star-certified homes. *See* Tr. at 494-577.

Because the Company derives revenue by selling gas to customers, the Company also proposed to implement a FCCM to help ensure the Company does not lose money if its proposed

DSM program causes its customers to buy less gas. Tr. at 662. In summary, Intermountain proposed raising its monthly fixed-customer charges for the residential and commercial classes to more closely match the Company's fixed costs to serve each customer class.[2] The Company proposed to recover these fixed costs through the FCCM, which the Company defined as total sales service margin less Purchased Gas Cost Adjustment (PGA) revenues and less revenues recovered from the customer charge for the applicable rate schedules. Tr. at 663. Under the proposal, Intermountain would reconcile, and accrue through a balancing account, the difference between its actual FCCM and the allowed or approved FCCM, and thus ensure the Company's revenues and earnings are separated from, and unaffected by, the amount of gas the Company sells to its customers. *Id.*

DISCUSSION

I. TEST YEAR, CAPITAL STRUCTURE AND RATE OF RETURN

A. Test Year

The purpose of determining a test year for ratemaking purposes is to develop representative operating data that will provide "a meaningful comparison and guide for developing future revenue requirements," and allow "the parties to work with actual data, while still recognizing projected changes which are reasonably certain to occur." *See* Order No. 12467. "In addition, we have on occasion accepted partial projections when circumstances warranted, on the condition that the staff could verify projected data prior to presentations of its case." *See* Order No. 14859.

In this case, Intermountain proposed a 2016 calendar year test year. Tr. at 207. The Company originally utilized six months of actual data and six months of forecasted data, with the forecasted data to be trued-up in January 2017. *Id.* However, at Staff's request, the Company updated its test year data to reflect actual data for January through September 2016 and forecasts for October through December 2016. The Company also updated year-end adjustments, depreciation expenses, taxes, accumulated depreciation, and other rate base items. *See* Tr. at 202; Staff Exh. 103. No party opposed the Company's proposed year.

[2] A "customer charge" is a flat minimum fee that customers pay each month regardless of how much gas they use. The customer charge helps cover the utilities fixed costs to serve customers, which include, for example, costs associated with billing, meter reading, operating and maintaining the system, and being available to distribute gas to customers upon demand.

Commission Findings

The Commission finds it reasonable and appropriate for the Company to use a 12-month test year ending December 31, 2016, adjusted for known and measurable changes, and using the latest data available after the Company trued-up part of its forecasted data through September 2016. The proper actual and forecasted data forming the basis for our decisions in this case is set forth in Attachment A to this Order.

Our adjustments to the test year revenues and expenses are addressed later in our discussion of revenue, expense and rate base adjustments.

B. Capital Structure and Rate of Return

(1) Capital Structure, Cost of Long-Term Debt

Intermountain analyzed its historical, current and projected capital structures by comparing them to those of a proxy group. The Company estimated its 2016 year-end balances attributed to debt and equity, and proposed a capital structure consisting of 50% long-term debt and 50% common stock equity for use in determining the overall ROR. Tr. at 98.

Staff proposed the same capital structure as the Company. Tr. at 1013. However, NIGU stated that, because of the Company's short-term debt, common equity is 47.95% and should be rounded to 48%, with debt at 52%. Tr. at 737. The Company countered that NIGU used 2013 data and ignored the more relevant data from Intermountain's most recent quarterly ratio calculation. The Company also argued that only long-term debt should be included in capital structure. Tr. at 1706.

Commission Findings

The Commission finds that an average capital structure through December 31, 2016, consisting of 50% debt and 50% common equity, as proposed by the Company and Staff, and the proposed uncontested cost of debt (4.94%), is reasonable and appropriate.

(2) Return on Equity

Intermountain defines cost of common equity as "the expected return that investors require on an investment in the utility. Investors expect to earn their required return from receiving dividends and through stock price appreciation." Tr. at 766. To determine its ROE, Intermountain analyzed a proxy group of Natural Gas Utility Industry companies and made certain adjustments in order to compare the proxy utilities to Intermountain. *Id.* at 768-773.

The Company estimated its proposed ROE using several methods, including Discounted Cash Flow (DCF) analyses, two Risk Premium analyses, a Market DCF analysis of the S&P 500, and a Capital Asset Pricing Model. Tr. at 139. Based on its risk analyses, Intermountain proposed a 9.90% ROE, which is approximately the midpoint between the median and third quartile of the range it established in its Basic DCF analysis. Tr. at 198.

Staff

Staff estimated the Company's cost of equity to be between 8.5% and 9.5%, with a point value of 9.25%. Tr. at 1353. Staff based its estimates on a review of market data and comparables to assess the average risk for companies having similar operating characteristics and capital structure to Intermountain. *Id.* at 1358-1377. Staff recommended that the Commission decrease the Company's proposed ROE by 25 basis points, to 9.0%, if the Commission approves the Company's proposed FCCM. *Id.* at 1355. Staff maintained that Intermountain will have less overall risk if the FCCM is approved. *Id.*

Staff adopted the Company's proxy group for its DCF analysis. Staff adjustments include using the blended growth rate (which is an average of the analysts' earnings growth estimate and the sustainable growth rate, calculated using Value Line data) for the proxy group analyzed by the Company, and reducing the Company's proposed flotation cost adjustment. *Id.* at 1377, ll. 7-18; and Staff Exhibit 107.[3]

Staff also noted that utilities have less competition and risk than companies in other industries. *Id.* at 1353, ll. 18-24. Staff believes that Intermountain's major risks include fluctuating gas prices, changing pipeline rates, and the replacement of mains. The costs associated with these risks are fully recovered through the Company's annual PGA or are included in this case. Therefore, Staff asserted that they should not create an imbalanced effect on risk analysis. *Id.* at 1354, ll. 3-8.

NIGU

NIGU estimated the Company's cost of equity to be between 9.2% and 9.4% and, therefore, recommended that the Company's ROE be set at 9.3%. Tr. at 704. In formulating its recommendation, NIGU analyzed authorized returns in various jurisdictions, and assessed the regulated utility industry investment risk, credit standing, and stock price performance. *Id.* at

[3]The cost to issue stocks or bonds, such as costs associated with registering with the Securities and Exchange Commission or paying an underwriter to sell stock, is commonly called a "flotation cost."

738-739. NIGU performed several types of market analyses, and maintained its proposed 9.3% ROE would fairly compensate the Company in the current low capital cost market environment while maintaining the Company's strong investment grade bond rating and access to external capital. *Id.* at 706. Further, NIGU stated that 9.3% "represents a fair and balanced overall rate of return that fairly compensates investors, and minimizes unnecessary rate increases on retail customers." *Id.* at ll. 8-12.

NIGU disagreed with Intermountain's flotation cost adjustment. Tr. at 832-833. NIGU also stated that Intermountain faces risks that are comparable to the utilities in Intermountain's proxy group, and therefore Intermountain's ROE should not be set above the median DCF analysis results. *Id.* at 837. NIGU further disagreed with Intermountain's Risk Premium analyses and Capital Asset Pricing Model study. *Id.* at 850-853.

Intermountain Rebuttal

Intermountain disagreed with the ROE analyses conducted by Staff and NIGU. The Company claimed the parties' analyses failed to adequately address: (1) Intermountain's overall risks compared to the proxy group; (2) the full range of results produced under the DCF model; (3) the Risk Premium approach; (4) current market conditions compared to historical market conditions; (5) investor expectations of higher interest rates as the Federal Reserve takes steps to normalize monetary policy; (6) the recommendation of an inadequate flotation cost adjustment; and (7) the inappropriate reduction of common equity ratio. Tr. at 1643-1644.

Intermountain also disagreed with Staff's recommendation that the proposed ROE be decreased if Intermountain's proposed FCCM is allowed. Intermountain reasoned that disallowing the FCCM would increase rate design risk in terms of the proxy companies, which already have mechanisms in place (FCCM and customer charge(s)) to reduce rate design risk. Tr. at 1653.

Commission Findings

The standards for determining a fair ROE for a regulated utility have been framed by two decisions of the U.S. Supreme Court: *Bluefield Water Works & Improvement Co. v. Public Serv. Commission of West Virginia,* 262 U.S. 679 (1923), and *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944). In these cases, the Court provided that the authorized ROE should be: (1) sufficient to maintain financial integrity; (2) sufficient to attract capital under reasonable terms; and (3) commensurate with returns investors could earn by investing in other enterprises of comparable risk. In line with these decisions, the Idaho Supreme Court has stated "that the primary objective in ratemaking is to allow the utility to meet its legitimate operating expenses, as well as to pay creditors, provide dividends to shareholders, and maintain its financial integrity so that it might attract new capital." *Application of Citizens Utilities Co.*, 112 Idaho 1061, 1067, 739 P.2d 360, 366 (1987).

Here, the parties have advanced various methods for determining a fair ROE, including DCF analyses, the Comparable Earnings method, Risk Premium analyses, and the Capital Asset Pricing Model. Each method attempts to estimate a sufficient ROE to attract free market investors into buying the Company's stock. In summary:

- A DCF method assumes an investor buys stock at a price reflecting the present value of the future cash the investor expects to receive from dividends and the ultimate sale of the stock. Since future dollars are worth less than present dollars, the future cash flow is discounted back to the present at the investor's required ROR;

- A Comparable Earnings method evaluates returns earned by other companies, including utilities, to quantify an investor's expected return, taking into account the risks associated with a particular investment;

- A Risk Premium method starts with the ROR for a low-risk investment—such as government or utility bonds—and adds a premium based on the relative risk associated with a utility's stock; and

- A Capital Asset Pricing Model, measures risk in relation to the market as a whole. As markets change new concerns develop in disparate financial circles related to the calculations used to determine the cost of equity.

While each of these methods can be useful in estimating a utility's ROE, as with other analytical tools used in ratemaking, these methods only imperfectly predict the Company's future requirements and performance. Further, the ROE allowed by a regulatory agency is but one factor that a prudent investor might consider when deciding whether to buy the Company's stock.

We have a dual obligation in rate cases, both to the utility and to its customers. To customers, our duty is to establish rates that are fair and reasonable. To the utility, we must set rates at a level that will allow it the opportunity to recover its reasonable operating expenses while receiving a reasonable return on its prudent capital investments. Satisfying our duty to the utility enables it to be financially sound and able to safely and reliably serve its customers, thus addressing our obligation to customers. Ultimately, our decision-making on this issue requires careful consideration of our statutory obligations and a balancing of interests.

Having considered the methods and rationales discussed in the witnesses' cost of capital testimony, we find the upper limit for a return in the testimony of Staff Witness Rogers (Carlock), and the median Basic DCF analysis provided by the Company, to be persuasive and reasonable. The evidence in this case supports an ROE ranging from approximately 9.0-9.9%. The higher end of this range encompasses the median of Intermountain's recommended Basic DCF range, and the upper limit of Staff's Blended Growth Rate DCF Analysis. All ROE point estimates made by the parties in this case are included in this range, i.e., Staff at 9.25%, NIGU at 9.3%, and Intermountain at 9.9%.

We find that, under the facts of this case, Intermountain's reasonably required ROE should be set at 9.5%. In authorizing a 9.5% ROE, the Commission reaffirms its desire to maintain Intermountain as a financially viable utility with credit ratings at or above the current level. The use of this authorized ROE, together with the previously discussed cost of long-term debt and capital structure, yields the following overall ROR:

Component	Ratio	Cost	Weighted Cost
Debt	50%	4.94%	2.5%
Common Equity	50%	9.50%	4.8%
TOTAL	100%		7.3%

This approved capital structure, overall return, and our ultimate findings on revenue requirement maintain the Company's business strength and reflect fair, just and reasonable recovery from ratepayers. In separate security filings, the Commission has authorized Intermountain to maintain adequate equity and debt authority. We believe this allows Intermountain to adequately access capital markets.

II. ADJUSTMENTS TO TEST YEAR REVENUES, EXPENSES AND RATE BASE

Once a test year is selected, the test year revenue and expense accounts and rate base are adjusted to reflect known and measurable changes so the test year totals will accurately reflect anticipated amounts for the future period when rates will be in effect. There are generally three types of adjustments: (1) normalizing adjustments made for unusual occurrences, like one-time events or extreme weather conditions, so they do not unduly affect the test year; (2)

annualizing adjustments made for events that occurred at some point in the test year to average their effect as if they had been in existence during the entire year; and (3) known and measurable adjustments made to include events that may occur outside the test year but will continue in the future to affect Company income and expenses.

In this case, Intermountain determined its 2016 test year revenues and expenses in the same way it established a test year rate base; it started with six months of 2016 actuals and six months of 2016 forecast, and ended with nine months (January–September 2016) of trued-up actual data and three months (October–December 2016) of forecasted data. Tr. at 1516. Intermountain then attempted to adjust specific revenue and expense accounts for known and measurable changes. Tr. at 239-249. Staff and other parties, however, objected to the Company's 2016 actual and forecasted revenue and expense items, and to the Company's proposed adjustments. The parties' objections and recommended account adjustments would, if approved by this Commission, change the Company's proposed revenue requirement.

On rebuttal, the Company further updated actuals through September, as noted above, and properly reflected depreciation and taxes not included in its initial filing. *See* Tr. at 1503-1504; *and* Intermountain Rebuttal Exhibit 47. The Company also agreed to accept a number of the parties' proposed adjustments to net operating income and/or rate base. Tr. at 1945-1947. On rebuttal, the Company thus decreased its originally proposed revenue requirement increase of approximately $10.16 million (4.06%) to approximately $9.35 million (3.7%). Tr. at 23.

The remaining disputed adjustments to the Company's revenue, expenses, and rate base, and their effect on the Company's revised $9.35 million increase to its revenue requirement, are discussed below.

A. Disputed Revenue Adjustments

(1) Weather Normalization

In this case, the parties have disagreed on the use of weather normalization. Weather normalization adjusts test year gas consumption to the level that would have been consumed in an average weather year. Customers typically consume more or less than normal amounts of gas when there is unusually warm, cold, wet or dry weather. The purpose of weather normalization is to adjust test year customer gas consumption to the level that would be expected in a year with normal weather conditions. Normalized customer gas consumption is then used to establish retail sales revenue that can be expected in a normal year. The definition of "normal" is a peculiarity of the estimation process. For ratemaking purposes, in the United States, "normal" weather is usually defined as the average over the previous 30 years. Jonathan A. Lesser & Leonardo R. Giacchino, *Fundamentals of Energy Regulation* 217, (2d. ed. 2013).

Typically, analysts weather-normalize natural gas consumption using linear regression techniques. Total gas consumption depends on numerous variables, e.g., pricing, number of customers, and weather conditions. Once the regression is fit, consumption is estimated based on actual and "normal" weather conditions. The difference between those estimated values is subtracted from the observed consumption to derive weather-normalized demand.

Given this basic background, we consider the appropriateness of the Company's weather normalization method below.

Intermountain

Intermountain used the same weather normalization method in this case that it has used since 1986 in its annual PGA filings with this Commission. Tr. at 1788. Although Intermountain stated that it primarily uses the methodology to adjust sales that have already occurred, it also uses the methodology to predict future sales and some forecasting. *Id.*

Staff

Staff, on the other hand, urged the Commission to reject the Company's proposed continued use of its 1986 weather normalization method, because the Company could not provide evidence and information that would enable Staff to: (1) replicate the method used by the Company in order to determine accuracy; (2) vary the analysis by using weather and customer usage data for different periods of record than used by the Company; and (3) perform weather normalization analysis for each of the Company's customer classes to determine which classes are sensitive to weather conditions. Tr. at 1120-1122.

Staff thus recommended that the Commission adopt a methodology based on an Average Weather Year that Staff developed for this case. Staff believes its weather normalization method more accurately depicts normal annual gas consumption than does Intermountain's Normal Heating Degree Days method from 1986. Tr. at 1015. In summary, Staff's method used consumption models for residential and general services with multiple statistical autoregressive models to estimate per-customer consumption for each class. *Id.* at

1122-1125. Staff argued that the Company used incorrect or extraneous autoregressive terms, which caused it to underestimate monthly consumption estimates. *Id.* at 1120-1122. Staff maintained that its modeling is simpler and more robust than the Company's. *Id.* at 1104.

Intermountain Rebuttal

Intermountain disagreed with Staff's proposal to use an Average Weather Year, noting that the use of an Average Weather Year is not an industry standard, and that no other LDC utilizes it. Instead the Company argued that the Commission should allow use of Intermountain's Rolling 30-year Normal. Tr. at 1798-1808.

Intermountain stated that Staff's data is improperly weighted, and does not reflect Intermountain's current customer base, because the number of customers living in warmer portions of its western Idaho service area has increased significantly since 1986. *Id.* at 1806. These increases have resulted in higher per customer gas use than assumed by Staff. *Id.* at 1805-1806.

Intermountain also claimed that Staff's regression analyses improperly used certain coefficients. Intermountain argued that, to properly explain gas use, regression analysis should use weather concepts like Heating Degree Days, and economic factors like gas price. *Id.* at 1790, 22-24. Intermountain maintained that its time frame was proper, allowing enough variation in the data to gain information from more than one weather concept and from multiple economic variables. *Id.* at 1791, ll. 1-3. Intermountain stated that once the regression equations are estimated, it is the weather coefficients of the weather variables that are important to weather adjustment because they measure the response of sales to changes in weather variables. *Id.* at 1791-1792.

Intermountain contended that Staff did not compare the Company's models to actual consumption. Although Staff maintained that Intermountain did not provide pertinent consumption information, Intermountain maintained that it did provide the proper data, and that its own analysis showed that Staff's modeling would not have accurately predicted consumption from 2012-2016. *Id.* at 1766, ll. 3-15.

Commission Findings

We find that the Company did not meet its burden of proof as related to weather normalization. As a result, we adopt Staff's analysis for weather normalization. The weather normalization adjustment decreases revenue requirement by $2,024,597.

The Company argued that we approved its weather normalization methodology in 1986. However, while we allowed the Company's use of the methodology at that time because that method was arguably better than Intermountain's prior methods that we had rejected, we noted we would not determine whether the 1986 method was, in fact, appropriate until the Company filed its next rate case.

By way of background, Intermountain filed its 1986 weather normalization case (which sets forth the method the Company says it used here), after a series of cases in which the Commission had rejected the Company's other weather normalization methods. *See* Case Nos. U-1034-99, U-1034-122, U-1034-134, Order No. 21048. In the 1986 case, the Company solicited, received and incorporated Commission Staff's recommendations into its weather normalization methodology and placed its new method before the Commission. In response, the Commission said it "encourages Intermountain's efforts to improve and refine its weather normalization methodology," and found the "proposed model to be a reasonable alternative to continued utilization of the model rejected by the Commission in Case Nos. U-1034-99 and U-1034-122." *Id.* But, belying the Company's claim here that the Commission actually approved of that methodology, the Commission also stated that, while "[Intermountain] is authorized to implement its proposed weather normalization model for internal forecasting and ratemaking purposes," the "Commission reserves decision on its appropriateness until such time as it is presented in a ratemaking case for consideration." *Id.*

When the Company filed its 1986 case, it typically came before this Commission on an almost annual basis. After that case was filed, however, the Company waited almost 31 years to file a general rate case in which the Commission or its Staff would have the opportunity to weigh in on whether the 1986 method was, in fact, appropriate. It is worth noting that nothing would have prevented the Company from presenting a weather normalization method before us for a determination outside the constraints of a general rate case.

We find that, despite our having encouraged the Company in 1986 "to improve and refine its weather normalization methodology," the Company has not improved or refined its methodology at all. Moreover, the Company was unable to show that the methodology is reasonable, appropriate and reproducible.

We acknowledge that weather normalization and its underlying mathematical and statistical bases can be complex and arcane, making the various results difficult to distinguish and understand. However, the Company must still provide a reasonable explanation of the methodology and the necessary underlying raw data to enable the Commission to verify the results and confirm the Company's findings.

The Company did not heed our admonition from its prior rate case. We encourage the Company to collect and maintain data in a format that is auditable and retrievable. In contrast, we believe Staff has presented a reasonable alternative to the Company's weather normalization methodology, despite the confusion created by the Company's data. Consequently, at this time, we approve the weather normalization consumption adjustment as proposed by Staff.

(2) Other Revenues

NIGU proposed to increase the Company's test year Other Revenues[4] by $206,000 because, it argued, the first six months of 2016 better represents ongoing, current actual other revenues than the last six months of 2015. Tr. at 706.

Intermountain

Intermountain stated that NIGU's adjustment is obsolete, arguing that NIGU did not update or address its direct testimony to reflect the materials provided to all parties in response to Staff's Production Request 178. Tr. at 1516. Intermountain noted that once updated, forecasted Other Revenues were "$27,352 (0.92%) lower than actual Other Revenues through December 31, 2016." *Id.* at 1517.

Neither Staff on direct, nor NIGU on rebuttal addressed this issue.

Commission Findings

Actual numbers through September 2016 for other revenues are better than the forecasts used by Intermountain in Direct or by NIGU. The updated actuals as of September 2016 included in Staff's Exhibit 103 are generally accepted as the starting test year numbers. We find that Other Revenues, as updated by Intermountain and used by Staff, represent a reasonable and appropriate level.

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[4] Intermountain stated that NIGU adjusted the wrong "Other Revenues." According to the Company, NIGU adjusted Exhibit No. 9, Lines 1 through 12 and not *total* "Other Revenues," Exhibit No. 8, Line 2. Tr. at 1516.

B. Disputed Expense Adjustments

(1) Incentive Compensation

Intermountain requested $704,000 in Non-Executive Incentive Compensation Plan funds because, it argued, the compensation is attributed to Intermountain employees meeting metrics for net income, cost control and customer satisfaction. Tr. at 255-256. Intermountain removed the portion of compensation expense related to achieving a target level of income, because it did not consider this metric related to customer benefits. Tr. at 1524. On the other hand, it sought recovery of incentive compensation expense metrics related to cost control and customer service because, they were "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." *Id.* at 257.

Intermountain stated that the individual employee effort of each MDU subsidiary combine to benefit customers because, for example, if Intermountain met cost control goals by underspending, customers benefit through decreased cost recovery. Tr. at 1522. Further, customer satisfaction is measured through inclusion of MDU Resources in the top 35 companies in the JD Power Gas Utility Customer Satisfaction Study, benefiting customers because each utility works diligently to achieve the highest level of customer satisfaction. *Id.*

Intermountain further argued that the Commission has allowed incentive compensation for other utilities that show a direct benefit to customers or show a sufficient link to operational efficiency, customer service, and safety. *Id.* at 1524.

<u>NIGU</u>

NIGU argued that Intermountain's adjusted incentive compensation is measured against the combined results achieved by all utility subsidiaries of MDU Resources spread across eight states, and that there is no proof that specific employee performance resulting in customer benefits or employee safety is tied to Intermountain's stated customer benefits. Rather than help ratepayers, the benefits inure to shareholders through enhanced stock valuation, earnings growth and reduced investment risk. Tr. at 713-716.

Commission Findings

We find that Intermountain has not met its burden of showing that Intermountain's customers directly benefit from MDU's incentive compensation plans related to cost control and customer satisfaction. Intermountain must attempt to make a showing that these expenses directly relate to improving service or reducing costs to Intermountain customers. Intermountain cited several cases to show that the Commission has allowed other utilities to recover employee incentive compensation. These cases are, however, distinguishable. Here, the incentive compensation metrics for Intermountain are inextricably linked to MDU. Accordingly, we decline to include incentive compensation related to cost control and customer satisfaction in the revenue requirement for this case.

(2) Salary Expenses

Staff testified that Intermountain's labor cost, as a percent of revenue, is higher than Avista Gas: 7.05% versus 4.75%. Tr. at 1086. Staff used a weighted average of three salary studies, including the Occupational Employment Survey (OES) used by the Bureau of Labor Statistics, which was double weighted in Staff's analysis. *Id.* at 1087. Staff believes that the labor surveys utilized by Intermountain minimize the effects of regional markets on salaries, where BLS data provides an analytical component related to regional pricing. *Id.* at 1087-1090. As a result, Staff proposed a $214,296 reduction of salary expense in revenue requirement. *Id.*

Intermountain

Intermountain disagreed with Staff's analysis. Tr. at 1831-1836. Intermountain maintained that the OES encompasses too many organizations, too broad of job descriptions, does not take into account rural areas with lower salaries, and uses out-of-date data. *Id.* Intermountain contended that its use of more current market survey data is sound and consistent with the practices of other utilities. *Id.* at 1837.

To develop its salary expenses analysis, Intermountain used its own in-house survey as well as contracting with independent consultants to review compensation. *Id.* at 1837-1844. Intermountain claims that its 2013 independent survey, contracted through Aon Hewitt, showed its compensation programs were well-designed and aligned well with other utilities, with Intermountain paying slightly below market. *Id.* at 1840. Intermountain stated that it will conduct another independent review in 2017. *Id.* at 1839.

Commission Findings

The Commission finds the Company's salary expenses to be reasonable and appropriate. Intermountain's salary expense analytical approach is sound overall. While Staff's analysis may be reasonable when specific studies are not available, we are inclined to use the most current, specific studies.

(3) Affiliate Expenses

NIGU argued that affiliate transaction costs, which are costs directly or indirectly charged to the Company by affiliated companies, should be reduced to the five-year average level experienced during 2011 through 2015, or by $1,381,000 in the test year, because insufficient explanation or justification was provided for the Company's forecast. Tr. at 712-713.

Intermountain

Intermountain proposed including affiliated transaction costs related to the provision of service to and between subsidiary companies of MDU Resources, such as payroll, procurement, Enterprise, and General and Administrative Services. Tr. at 219. In response to NIGU's argument, Intermountain updated its affiliate costs and showed that its test year forecasted affiliate costs were $15.55 million. The Company argued these costs are reasonable, because they were only $52,500 (0.34%) lower than actuals. Tr. at 1519. Because the Company's actual updated data is more accurate than the previously-submitted forecasted data that NIGU rejected, Intermountain asked that its updated level of affiliate costs be accepted. *Id.*

Commission Findings

The Commission finds that Intermountain failed to prove the reasonableness of its affiliated transaction costs. Normally, a utility can establish a prima facie case of reasonableness simply by showing it actually incurred the expenses through arms-length bargaining with another company. *See Boise Water Corporation v. Idaho Public Utilities Commission*, 97 Idaho 832, 838, 555 P.2d 163, 169 (1976). Payments to affiliates, on the other hand, do "not establish a prima facie case of reasonableness," and it is not enough for the utility to argue it has incurred the expense or that the affiliate provided the goods or services "at cost." *Id.* at 836-837. Rather, the burden of affirmatively proving the reasonableness of expenses incurred between affiliates falls upon the utility. *General Telephone Company v. Idaho Public Utilities Commission*, 109 Idaho 942, 950, 712 P.2d 643, 651 (1986). The Idaho Supreme Court provides the rationale for applying a more rigorous standard to affiliated transactions, stating that the:

> desire of public utility management, evidenced by various methods, to secure the highest possible return to the ultimate owners is incompatible with the semi-public nature of the utility business, which the management directs. It therefore follows that the [C]ommission should scrutinize carefully charges by affiliates, as inflated charges to [the] operating company may be a means to improperly increase the allowable revenue and raise the cost to consumers of

> utility service as well as the unwarranted source of profit to the ultimate holding company.

Id. (*citing Solar Electric Company v. Pennsylvania PUC*, 137 Pa. Super. 325, 9 A.2d 447, 473 (1939)). The Commission may in its discretion find that it was unpersuaded by a utility's evidence concerning the reasonableness of its expenses. *Id.*

Here, the Commission finds the Company failed to prove that its proposed affiliated transaction expenses are reasonable. A showing of costs is not enough to overcome the burden of proving reasonableness with regard to affiliates. However, we acknowledge that some allocation is reasonable and appropriate. In the absence of other proposals, and based on our review of the extensive record in this case, we find NIGU's proposal to be a fair and reasonable alternative. When test year expenses are abnormal, higher or lower, it is common to use an average. Therefore, we approve affiliate expenses based on the five-year average experienced from 2011 through 2015, which amounts to a reduction of $1,381,000 in test year expenses.

(4) Miscellaneous Expense Adjustments

Staff argued that expenses to enhance a utility's image, including donations to charities or sponsorships of charitable events or golf tournaments, do not directly benefit ratepayers. Also, ratepayers should not be forced to support organizations whose ideology may not agree with theirs. Tr. at 1059-1060, *and see Re Intermountain Gas Co.* (1978) Order No. 14141. Staff thus recommended that the Commission disallow the Company's expense related to the following events and activities, because those expenses are not safety related and do not directly benefit customers: (1) Chamber of Commerce (Chamber) and Rotary and Lions Club, Tr. at 1062; (2) $32,765 from the 2016 test year actual expenses for monies spent on golf-related activities and sponsorships, *Id.* at 1060-1061; and (3) $53,566 from test year actual expenses for payments made in donations or contribution to charities. *Id.* Staff's adjustments, above, included adjusting the forecast expenses based on actuals.

<u>*Intermountain*</u>

Intermountain accepted Staff's recommended adjustments for management expenses, injuries and damages and "other proposed adjustments in Staff Exhibit No. 101." These adjustments are reflected in the Commission's approved revenue requirement, as illustrated by Attachment A to this Order. Tr. at 1524. On the other hand, Intermountain did not accept Staff's adjustments for: (1) Chamber of Commerce (Chamber) expenses; (2) Rotary and Lions Club dues; (3) certain expenses which were duplicated;[5] (4) a refunded expense; and (5) Staff's determination of disallowed expenses in the forecast period. Tr. at 1525.

Intermountain stated that Chamber fees ($18,150) should be allowed because Intermountain faces competition from electricity and other heating fuels and Chambers "help the Company compete in the marketplace thereby enabling it to offer its customers more and lower-priced options for energy." Tr. at 1530-1531. Intermountain stated that the Commission has allowed Chamber expense recovery in other cases before it. *Id.* However, at hearing, Intermountain admitted that in past cases cited by the Company, Chamber expenses were grouped together with expenses related to several groups and organizations, including Edison Electric Institute, (Order No. 29505) and, therefore, were only partially allowed. In another case, Chamber expenses were totally disallowed (AVU-E-04-01). *Id.* at 1538-1539.

Intermountain further argued that the networking advantages provided as a result of its participation in the Rotary Club of Idaho Falls and Twin Falls Lions Club ($275) directly benefit customers by providing opportunities to network with the Company's customers and help strengthen the communities in which they live. *Id.* at 1532.

Intermountain also argued that Staff should recalculate its disallowed expense adjustment because certain expenses, specifically golf sponsorships and the American Heart Association Heart Walk sponsorship, do not occur in the last three months of the year and should be adjusted. Tr. at 1534. Intermountain argued that Staff used relative percentages of its proposed disallowed expenses "to the total expenses for the period January through September of 2016 and applied that percentage to the forecast period October through December of 2016." *Id.* Therefore, the Company argued that its proposed recalculated adjustment, with these expenses removed, should be used. *See* Exhibit 32, Page 1, Line 26.

Commission Findings

We continue to follow our well-established precedent as it relates to the disallowance of expenses related to lobbying, enhancing the Company's image in the community, and maximizing shareholder value. Therefore, we find it just and reasonable to disallow the Company's claimed expenses related to the Chamber or service clubs, charitable sponsorships,

[5] At hearing, Staff also noted that there were two expenses in Staff Witness Romano's exhibits that were double counted and one expense that was not removed that was later reimbursed. Tr. at 1053-1054. Staff's proposed adjustments were amended by $1,598 to reflect these mistakes.

community golf outings, and the like. We find these to be primarily image-enhancing activities that primarily benefit the Company and its shareholders rather than customers.

Although the Company may experience certain elements of competition in the marketplace, it is simply not a traditional market participant. It is a monopolistic public utility that does not have to compete with other LDCs within its service area and is authorized a certain ROR. To suggest otherwise is disingenuous.

Finally, we find that there is insufficient evidence in the record related to the seasonality of certain expenses that Intermountain sought to remove from Staff's expense adjustments. While we recognize that certain expenses occur at specific points in the year and may not be recurring—as an example, a utility's fourth quarter may also include expenses related to holidays that do not occur at other times of the year—the Company did not provide sufficient evidence to make this determination for its proposed seasonal expense adjustments. Therefore, without more, we are persuaded by Staff's adjustment analysis and find the ratio it used to allocate expense adjustments to be reasonable.

C. Rate Base

"Rate base" is "the utility's capital investment amount." *Industrial Customers of Idaho Power v. Idaho PUC*, 134 Idaho 285, 291, 1 P.3d 786, 792 (2000). In this case, Intermountain proposed a $237,318,401 rate base consisting of six items: net gas plant-in-service, materials and supplies inventory, gas storage inventory, cash working capital, accumulated deferred income taxes, and customer advances. Tr. at 209; 249. The Company then proposed to adjust the rate base to reflect known and measurable changes.

Staff noted that Intermountain books individual program costs and associated contributions by FERC account rather than having project-specific documentation, which Staff believes is not a best practice for purposes of allocating the revenue requirement. Tr. at 1111-1129. Staff recommended that the Company, Staff, and other interested parties address these and other recordkeeping, accounting and organizational issues after this case ends. *Id.*; 1015. Staff and the other parties to this case otherwise accepted the Company's proposed adjusted rate base, with a few exceptions as discussed below. Tr. at 1077-1078.

(1) Disputed Rate Base Adjustments

(a) Bonus Depreciation

Bonus depreciation allows more rapid recovery of certain capital investments for tax purposes than its economic depreciation by allowing a company to write-off 50-100% of the cost of certain plant additions in the first year of operation, thereby reducing taxable income and the amount of federal income tax paid. Tr. at 1592. For 2016, Intermountain found that the benefit of foregoing bonus depreciation outweighed taking it. *Id.* at 1594-1595. MDU found that by not electing its subsidiary Intermountain's bonus depreciation for 2016, the consolidated company could utilize about $9.5 million in tax credits that otherwise would have expired in other states served by it. *Id.*

Critically, Intermountain and MDU maintained that adjusting rate base to account for foregone bonus depreciation would violate IRS Normalization Rules. *Id.* at 1598-1602. Intermountain contended that normalization spreads utility tax benefits over the life of the asset, treating current and future utility customers equitably by allowing all customers to enjoy the tax benefits of depreciation. *Id.* However, Intermountain stated that an impermissible flow of tax benefits from accelerated depreciation to ratepayers results when the taxpayer (in this case Intermountain) had not yet realized the benefit. *Id.* Intermountain stated that a violation of IRS Normalization Rules could cause the permanent loss of using *any* form of accelerated depreciation by MDU, thereby increasing costs of capital, and harming ratepayers through higher rates. *Id.* at 1602.

NIGU

NIGU countered that MDU and Intermountain harmed ratepayers and inflated Intermountain's revenue requirement by $228,000 by not electing to deduct bonus depreciation when calculating 2016 federal income tax. Tr. at 939. NIGU maintained that there is an inherent conflict where MDU uses additional tax write-offs at the parent company level, while retail utility customers of its subsidiary have to pay more income tax. *Id.* NIGU maintains that there are benefits to the operating utility subsidiaries of MDU provided through its participation in a parent company structure, but that MDU Resources should not transfer any additional expense to Intermountain without a fair quid pro quo, in the best interest of Intermountain's ratepayers. *Id.* at 941.

Commission Findings

The Commission finds the Company's argument persuasive as it relates to normalization concerns from taking bonus depreciation benefits for customers faster than over the depreciable life of the asset. While we understand the corporate benefits received by MDU from not electing to take bonus depreciation when determining its 2016 federal income tax, we find the Company has demonstrated that under these facts, and solely for the determination of federal income tax in 2016, it is appropriate to exclude bonus depreciation related to Intermountain because doing so will prevent a violation of IRS normalization rules.

We acknowledge NIGU's arguments related to the MDU Resources-Intermountain parent subsidiary relationship. Intermountain should not be permitted to use this relationship both as a sword and as a shield, depending on the outcome. Such approach will not always inure to the benefit of Intermountain's customers.

(b) Cash Working Capital

Intermountain stated that Cash Working Capital (CWC) is the amount of funds required to finance its day-to-day operations. Tr. at 1547. Intermountain included $1,143,988 for CWC in its proposed rate base, which increased its revenue requirement by $141,803. Tr. at 245; 1945.

Staff

Staff removed $1,137,743[6] of CWC from rate base as shown on Revised Exhibit 103, Adjustment 3. Tr. at 1352. Staff stated that Intermountain has not adequately shown that shareholders provided CWC during the "lag" between when Intermountain incurs operating expenses and the time revenues are received. *Id.* at 1350, 1379. Staff stated that CWC is never automatically included in rate base, but included only after a showing that CWC is supplied by shareholders. *Id.* at 1351. Staff recommended that Intermountain undertake a "balance sheet analysis." *Id.* at 1379.

Staff stated that the Company should provide better evidence that CWC was provided by shareholders because Intermountain also included materials and supplies and gas storage incentives in rate base. *Id.* at 1351. When these items are included in rate base, CWC may not be recognized by some commissions. Staff also stated that a change in operating practice could alleviate the need for CWC; that the Company's study and lead and lag inputs create the

[6] CWC varies with each adjustment making the Company and Staff numbers different.

problem, not Intermountain's practices, per se, although practices could also be slightly altered to erase the need for CWC. *Id.* at 1352, 1379-1383.

Intermountain Rebuttal

Intermountain disagreed with Staff's proposal to remove Intermountain's CWC from rate base. The Company noted it had conducted a lead-lag study, which is the predominant method that this Commission and other commissions use to determine the amount of CWC to be included in rate base. The Company thus argued that it was unnecessary to determine the sources of the CWC funds. Tr. at 1551-1559. Additionally, in response to Staff's criticism, Intermountain conducted a "balance sheet analysis" that confirmed the Company had a "working capital deficiency." *Id.* at 1563-1565.

Lastly, as an alternative to determining the amount of CWC based on its lead-lag study, the Company noted the Commission could estimate CWC using the commonly accepted 45-day or 1/8 of Operations and Maintenance (O&M) Method. This alternative method would provide for $28 million of CWC. *Id.* at 1566.

Commission Findings

Cash flow problems occur when a utility pays expenses before collecting revenue. The Idaho Supreme Court has stated:

> To the extent that such amount [of expense] exceeds the revenue collected, it is supplied by the owners of the utility as a portion of their investment and thus becomes a part of the rate base. Thus, cash working capital is a recognition of the sum which the utility needs to supply from its own funds (rather than the rate-payer's [sic]) to meet current obligations as they arise due to the time lag between payment of expenses and collection of revenues. [Citation omitted] Such allowances by the Commission are not guaranteed as a matter of course; the utility carries the burden of showing by competent evidence that the need therefore exists. [Citation omitted].

Boise Water Corp., 97 Idaho at 836, 555 P.2d at 167. Further, this Commission has consistently held that utilities requesting CWC in rate base must be able to demonstrate that CWC needs are supplied by investors. *See* Order No. 19333.

We find that including CWC in the Company's rate base is unwarranted in this case. With regard to its lead-lag study, Intermountain noted that while the Commission "accepted Rocky Mountain Power's 2007 lead-lag study" it did so with "the direction that in the next rate case it demonstrate that a lead lag study appropriately considers the source of the funds." Tr. at

1554, 1555. Rocky Mountain's next case settled and CWC was not further discussed in the Commission's final Order. Therefore, while Intermountain argued that some CWC has been allowed into rate base in other ratemaking cases, its burden of proof still requires it to show that it is reasonable to include CWC in its rate base. Even assuming the Company's lead-lag study adequately demonstrated a need for CWC, the Company's methodology was insufficient to show that shareholders provided the CWC. Until the Company is able to demonstrate that its CWC needs are supplied but its investors, we will continue to disallow this expense.

The need for CWC is another area impacted by the Company's relationship to its parent, MDU. Cash pooling at the parent level, like consolidated tax returns, benefits the entity as a whole. For Intermountain to meet its burden of proving that it needs to include CWC in rate base, we find the Company must show: (a) a total working capital need beyond that included in rate base; (b) that total working capital and its CWC component are provided by shareholders; and (c) the need at the consolidated parent level is not offset by other consolidated benefits, such as consolidated tax benefits discussed above.

(c) Customer Service Center

The Company included a net book value of MDU's Customer Service Center building and land costs allocated to Intermountain at $1,942,878 with depreciation of $28,859. Tr. at 1094. However, Staff toured the facility and found that approximately one-third of the building is not in use at this time. *Id.* Staff thus believes it is appropriate to reclassify this amount from plant-in-service to plant held for future use, and to remove one-third of the building's and land's net book value ($647,626) and depreciation ($9,620) from Intermountain's rate base and expenses. *Id.* at 1094-1095. No other party to these proceedings either rebutted or addressed this adjustment.

Commission Findings

Based on our review of the record, we find that one-third of the Company's Customer Service Center is not yet used and useful. We thus find it fair, just, and reasonable to remove one-third of the building's and land's net book value ($647,626) and depreciation ($9,620) from Intermountain's rate base and expenses, and to reclassify one-third of the Customer Service Center from plant-in-service to plant held for future use.

D. Summary of Adjustments to Test Year Revenues, Expenses and Rate Base

With the Idaho rate base, revenue requirement and return on equity established, the Commission finds it fair, just, and reasonable to set the Company's revenue requirement as particularly shown on Attachment A to this Order, and as summarized below:

Rate Base	$235,526,788
Rate of Return	7.3%
Total Revenue Requirement	$264,044,909
Revenue Deficiency	$4,119,055
Percent Increase Required	1.58%

III. COST-OF-SERVICE STUDY AND RATE DESIGN

A. Gas Cost-of-service

Intermountain's cost-of-service methodology in this case is set forth in Exhibits 19-23. Intermountain did not conduct a load study. *See* Tr. at 1616. However, Intermountain maintained that its cost-of-service study is reasonable because, while a load study may more precisely estimate each class's peak use, a load study is not needed to properly meet cost causation principles. Tr. at 1896. Intermountain argued that it lacks the meter technology needed to conduct a load study. Also, unlike the electric industry, the natural gas industry does not commonly use load studies to determine cost-of-service. *Id.* Rather, the natural gas industry typically estimates rate class peak demands, as Intermountain argued it did in this case. Further, Intermountain utilized the more common method of applying one peak day, as opposed to Staff's recommendation of using multiple peak days. *Id.* at 897.

Intermountain also disagreed with Staff's proposal to allocate distribution plant using non-coincident peak (NCP) allocators. Intermountain maintained that while this is another common approach in the electric utility industry, it is not commonly used for LDCs. Tr. at 1898.

With respect to allocating its costs for distribution mains, Intermountain stated that 47.16% of those costs are customer related, while 52.84% are demand related. Tr. at 879. While it has records of allocation of total costs for service and regulators, Intermountain does not maintain records by rate class. It stated that using a weighing factor based on meter costs—such that larger customers require larger and more expensive meters and services—is an accepted industry approach. *Id.* at 867.

Intermountain disagreed with Staff that it is inappropriate to attribute any portion of mains as customer allocated because some distribution main investments are needed to connect a customer to a distribution system that is independent of the level of the customer's peak demand. Tr. at 1900-1901. Therefore, the Company asserted that main allocation costs should be based on the number of customers requiring connection, and not on peak demand. *Id.*

Staff

Staff criticized Intermountain's cost-of-service study for several reasons. First, Staff noted that Intermountain did not conduct a traditional load study, which Staff maintained invalidates Intermountain's cost-of-service study. Tr. at 1103-1104. Because the cost-of-service study is invalid, Staff recommended that the Company allocate its revenue requirement in proportion to the normalized revenue it now collects from each rate class until it can conduct a load study. Tr. at 1104.

Staff also criticized the Company's cost-of-service study for using novel and inappropriate cost allocators. *Id.* at 1103. Staff argued that, instead of conducting a load study, Intermountain combined peak day data from industrial and transportation customers (who have meters capable of recording daily demand) with monthly billing information from residential and general service customers. *Id.* at 1108. Staff maintained that Intermountain then subtracted peak use of industrial and transportation customers from system peak, and allocated the amount of peak not serving these customers to residential and general service classes. *Id.* Staff stated that Intermountain determined its peak day allocation by then allocating residential and general service on their January 1, 2016, consumption. *Id.* at 1109.

Staff also argued that classifying distribution main costs as both demand- and customer-related is inappropriate because mains serve multiple users and the cost of connection is already captured in customer-related distribution costs. *Id.* at 1113. Staff asserted that Intermountain should maintain auditable records that would allow proper cost allocation. *Id.* at 1111.

Finally, Staff stated that Intermountain did not maintain records necessary to determine net plant-in-service, so its cost-of-service model allocates gross, rather than net, rate base. *Id.* at 1116. By allocating gross plant-in-service, Intermountain included every item of unretired plant, including depreciated plant, Contributions in Aid of Construction (CIAC), and other plant not paid for by investors. *Id.* Staff maintained that after allocating gross plant-in-service, Intermountain prorated its revenue requirement by customer class. As a result, only a fraction of Intermountain's gross plant-in-service was represented as Company investment, despite the Company proposing to earn its allowed ROR on the entire amount. *Id.* at 1116-1117.

<u>*NIGU*</u>

NIGU generally supported Intermountain's cost-of-service study. On the other hand, NIGU opposed Staff's recommendation to allocate by an equal percentage across all rate classes, and argued that method would not send correct price signals to customers. Tr. at 858-862. NIGU stated that most gas utilities do not have meters capable of measuring daily consumption for residential and general service customers, but instead estimate peak consumption using weather data from historical periods. *Id.* at 868-872.

NIGU argued that Intermountain used the best data available and, therefore, that its cost-of-service study should be adopted. *Id.* at 865. Without implementing the results of the Company's cost-of-service study, NIGU argued that industrial customers will continue to subsidize residential and general service customers.

NIGU generally agreed with the Company regarding main cost allocation, arguing that the cost of distribution mains is partially customer driven because mains are installed to meet both peak load and to connect customers to the system. *Id.* at 731. NIGU asserted that peak requirements influence the diameter and capacity of mains, while customer location influences their length. *Id.* Further, NIGU contended that without customer allocation, interruptible customers would pay nothing for distribution mains because they do not contribute to peak day demand. *Id.* at 886.

Commission Findings

A cost-of-service study is an imperfect tool for assigning system and service costs to customer classes. We have previously recognized that cost-of-service modeling is not an exact science, and that while most generally accepted cost-of-service methods are based on similar principles, they may lead to disparate results and recommendations for class revenue allocation. Thus, the Commission has repeatedly emphasized that "a cost of service study is not a perfect tool for assigning system and service costs to customer classes." Order Nos. 29505 at 45; 25880 at 25-26. This Commission last addressed cost-of-service issues for Intermountain in 1986. *See* Case No. U-1034-122.

In this case, the Commission is committed to the task of selecting a cost-of-service method that (1) properly classifies system costs; (2) accurately identifies their drivers or causes;

and (3) equitably distributes them among Intermountain's various classes of customers. Once we accept a cost-of-service as a starting point, we must then determine the appropriate revenue requirement to be recovered in the rates of the different system customer classes. In doing so, we strive to equitably and reasonably apportion the revenue requirement among the customer classes. While we recognize "that the pricing of the utility's services should be based primarily on the cost of providing service to definable customer classes" (*see* Order No. 13608), our "dedication to cost-based rates does not . . . require slavish adherence to cost-of-service in every detail. Although cost-of-service must support the basic rate structure, other considerations should enter into the rate setting equation when necessary and appropriate." Order No. 14141. The Commission uses its authority to fashion fair and reasonable rates that not only provide the utility a fair return and generally follow cost-of-service study results, but also avoid dramatic and sudden increases which can lead to rate shock.

While we find that the Company has data that supports the known and measurable cost-of-service rate design within its large volume and transportation customers, it does not have such data for use in definitively allocating revenue requirement among the various other customer classes. As Staff stated, a load study with more class specific underlying cost information, and a more appropriate derivation of net plant-in-service would provide this data. Without full knowledge of the appropriate cost-of-service allocation, we adhere to the concept of gradualism related to cost-of-service.

Therefore, we accept the Company's cost-of-service study insomuch as it convinces us to move partially to full Company cost-of-service for all customer classes save large volume and transportation. Lack of a load study, lack of class specific project cost data over the 30-year period, a disputed allocation of distribution mains, and questionable calculation of net plant-in-service result in our finding that a 50% move toward cost-of-service is reasonable and warranted under the facts of this case for all affected customer classes, as stated above.

This outcome results from the fact that, contrary to our findings related to the Company's large volume and transportation customers and associated cost-based rates within those classes, Intermountain's cost-of-service study does not provide sufficient justification to move fully to the class allocation it proposes for all other classes. We find that the revenue increase allocated to each class, as depicted in Attachment B to this Order, is fair, just and reasonable. Finally, we would strongly encourage the Company, after over 30 years without interacting in a general rate case with its primary regulator, to participate with Staff and other interested parties in determining the best way forward as it relates to class cost-of-service acquisition of appropriate cost causation and load data.

B. Class Consolidation

Intermountain proposed to consolidate its residential service (RS-1 and RS-2) classes into a single class that eliminates the distinction based on the presence of gas water heating in residences. Tr. at 16. Intermountain further proposed to combine its two industrial customer transportation rate classes, T4 and T5, in a single rate class because the distinction between the two is eliminated if and when the Company's demand charge is allowed and implemented. *Id.* at 16.

Intermountain also proposed to introduce a new, fourth general service class tier to address customers using in excess of 10,000 therms per month. The Company expects its proposal to reduce the extent to which its largest GS-1 customers subsidize its smaller GS-1 customers, and better aligns rates charged to the largest GS-1 customers and the rates charged to the Company's LV-1 Large Volume Firm Sales Service customers. *Id.* at 371-375.

Finally, Intermountain proposed to eliminate seasonal rates. *Id.* at 358. The parties did not object and generally supported eliminating seasonal rates as an antiquated rate design characteristic.

<u>*Staff*</u>

Staff agreed that Intermountain's RS-1 and RS-2 classes be combined, and T4 and T5 classes be combined. Tr. at 1218; 1221. Staff also agreed with the Company's proposal to create a general service fourth block tier for customers who use more than 10,000 therms per month. Tr. at 1212.

However, Staff also recommended that the Company study whether the GS class should be divided into two or more classes as a result of the diversity of the class. Tr. at 1213. Staff proposed that this study occur alongside the cost-of-service workshop proposed by Staff and intervenors, to determine whether the smallest general service customers are subsidizing the largest GS customers, and to determine whether each GS class should be charged a different customer charge. *Id.*

CAPAI

CAPAI agreed with the other parties that there is no rationale for separating the residential class, as it now stands. Tr. at 956.

Commission Findings

We find it appropriate and reasonable to combine the Company's RS-1 and RS-2 classes, combine T4 and T5 classes, and create a GS fourth block tier for customers using more than 10,000 therms. We note that all parties concurred in (or at least did not oppose) this result.

As alluded to at various points in this Order, we encourage the Company to undertake a workshop related to the various issues that have arisen in this case. If the Company chooses to engage in a more collaborative, more frequent, and engaged ratemaking process, we recommend that as a part of that discussion, interested parties could address the potential for splitting GS into subclasses to prevent cross-class subsidization.

C. Customer Charge

As it relates to natural gas utilities, a customer charge is a fixed amount that a customer must pay each month without regard to how much gas the customer uses. Intermountain currently charges residential customers $2.50 per month for billing months of April through November and $6.50 per month for the billing months of December through March. Tr. at 364. The current weighted average residential customer charge is $3.83. Tr. at 1204. General service customers currently pay $2.00 per month for the billing months of April through November and $9.50 per month for the billing months of December through March, with a weighted average of $4.50. *Id.*

Intermountain

Intermountain proposed increasing the residential (RS) customer charge to $10.00 per month for all months, and the general service (GS) customer charge to $35.00 per month for all months. Tr. at 1204. The Company supported these increases with an analysis of its risk profile and evidence related to the recovery of fixed costs. The Company's goal is to decrease the disparity between the Company's current customer charges and the actual level customer costs associated with providing monthly natural gas service. Tr. at 272.

Staff

Staff recommended that the Company's customer charge be increased to $5.50 per month for residential customers, and $9.50 for general service customers, regardless of seasonality. Tr. at 1202. Staff's recommended increase in customer charges would result in an average monthly increase of $1.67 for residential customers, and of $5.00 to $9.50 for general services customers. *Id.* To balance its recommended increases in the customer charge, Staff also recommended a concomitant $0.17147 per therm usage charge increase (excluding gas cost) for residential customers, and $0.03530 per therm usage charge decrease for general services customers. *Id.* at 1205-1206.

To support its recommendation, Staff presented evidence and analysis of the customer charge related to: (1) the level of customer-related cost; (2) the bill impact in moving from current to proposed rates; (3) the total bill for "basic needs"; (4) the marginal cost pricing and price signals that promote conservation and the efficient use of resources; and (5) the customer charges of other utilities. *Id.* at 1207.

Staff noted that it was troubled by the range of customers represented in the GS classes and in imposing one uniform customer charge on the entire class. *Id.* at 1213. Staff recommended that, if the Company undertakes workshops related to the various ratemaking issues presented in this case, the division of the GS class for purposes of customer charge be analyzed and discussed. *Id.*

ICL/NWEC

ICL/NWEC opposed the Company's proposed increase to $10.00 for residential customers, as well as the proposed increase to $35.00 for GS customers because those proposed increases would not send an appropriate price signal related to energy efficiency. Tr. at 997. ICL/NWEC argued that when customers have no ability to affect the monthly charge, low-income households are injured. *Id.* Instead, ICL/NWEC supported inclusion of a low monthly customer charge with a decoupling mechanism (such as the Company's proposed FCCM in this case). *Id.* ICL/NWEC recommended that the customer charge be set at $3.50, with an adjusted commodity charge to capture the remaining revenue requirement. *Id.* at 998-1001. ICL/NWEC also recommended that all stakeholders participate in an effort to develop tiered, inclining-block commodity rates, or a flat per therm rate, to achieve the greatest conservation impact. *Id.* at 1003.

CAPAI

CAPAI's concerns related to how the proposed customer charge would impact low-income customers. CAPAI maintained, however, that the Company has never tracked low-income data. Consequently, CAPAI has been unable to properly analyze how an increased customer charge and lower usage charge would affect low-income customers. *Id.* at 957. CAPAI thus recommended that the Company use an advisory group to begin tracking low-income data, ranging from the percentage of its customers who are low income to their consumption habits, with that group, in turn, providing the data necessary to establish a low-income weatherization program. *Id.* at 959-963.

Commission Findings

We find the Company's proposals related to seasonal rates, RS class consolidation and the combination of the T4 and T5 classes reasonable and appropriate. In addition, we find the following customer charges fair, just and reasonable:

CUSTOMER CHARGE		
	Residential	**General Service**
Commission Approved Charge	$5.50/month	$9.50/month
Per Therm Usage Charge Change	+$0.17147	-$.03530

We direct the Company to continue to attempt to differentiate and align similarly situated customers together in appropriate class structures. We find that workshops addressing the various party recommendations related to class consolidation, improved tiers, and low-income issues, would be beneficial as the Company moves forward in its rate design endeavors.

We note that the Company expressed its desire to implement a robust DSM program that incentivizes energy efficiency. While we authorize the Company to increase its customer charge to some degree, we note that any large increases in the customer charge could disincentivize efficiency. Consequently, if the Company truly desires to incentivize efficiency, it should plan for and maintain customer charges at reasonable levels.

D. Demand Charge

The Company proposed implementing a demand (usage) charge based on Minimum Daily Firm Quantity (MDFQ) of $0.30 per therm for LV-1 and current T4 and T5 customers. Tr. at 391. It argued that a demand charge is long overdue, and that such a charge will help ensure that that particular customers pay for the costs they cause the Company to incur to provide them service. Thus, a demand charge represents the proper measure of the responsibility to pay for a customer's proportionate share of the demand it places on the system. *Id.* at 279.

Staff

Staff agreed that a demand charge is warranted. Tr. at 1219. But Staff recommended that the Commission reject the Company's proposed MDFQ demand charge because the Company's cost-of-service study is incomplete. Staff thus recommended that a lesser demand charge be implemented until the proposed MDFQ charges can be properly addressed. *Id.* at 1203.

Specifically, Staff recommended a lesser charge of $0.20 per therm (a 28% increase) because the demand charge will shift costs from higher load factor customers to lower load factor customers. While Staff stated this shift is appropriate because lower load factor customers should pay more to offset the higher costs to serve them, Staff believes the shift should be more gradually implemented. *Id.* at 1219. Staff's recommended $0.20 demand charge reflects Staff's support for a gradual shift. *Id.*

NIGU

NIGU generally supported Intermountain's proposed demand charge for LV and T customers as a sound way to recover fixed costs, stabilize revenues, and provide effective price signals to customers, however, NIGU argued there should be an "open season" where all industrial customers are allowed to reset MDFQs. Tr. at 734-735.

As an option to mitigate the proposed demand charge's effect on Amalgamated Sugar, NIGU proposed that an Amalgamated-specific load retention rate be established that would phase-in a demand-based pricing structure. During the phase-in, the Amalgamated discount would be spread across all rate classes, not just firm transportation customers. *Id.* at 902-904.

Amalgamated Sugar

Amalgamated stated it is by far the Company's largest individual transport customer and its proposals in this case have an outsized effect on Amalgamated. Tr. at 1472. Amalgamated stated that Intermountain originally proposed a 72.2% increase ($839,529) before Amalgamated would be allowed to re-nominate its MDFQ, but that, based on Intermountain's updated MDFQ, Amalgamated's increase would be 48.5% ($563,494), which, Amalgamated argued, is rate shock. Tr. at 1434; 1438; 1440.

Therefore, Amalgamated recommended that the Commission continue to take a conservative gradual approach to moving utility customers toward full cost-of-service rates. *Id.* at 1452-1455. Amalgamated argued that the Company, due to the period of time between general rate cases, should be bound by the ratemaking principal of gradualism and, therefore, any rate design changes should be spread over the Company's next five rate cases. *Id.* at 1494. Amalgamated acknowledged that costs it may be causing both now, and for as long the current rate design is in place, may have to be paid by another class of customers. *Id.* at 1494-1500.

Amalgamated further argued that Staff's recommendation to implement a demand charge is arbitrary in light of the Staff's concurrent recommendation that the Commission reject the Company's cost-of-service study. *Id.* at 1460-1461. Amalgamated contended that even with Staff's proposed lower revenue requirement and rate design, the increase in demand charges is still unreasonable and unacceptable. Amalgamated complained that the Company "ambushed" it by proposing a full cost-of-service demand charge when Amalgamated had only paid commodity charges for more than 30 years. *Id.* at 1474.

Amalgamated argued that the revenue requirement resulting from this case should be spread equally to all customer bills, and that any significant rate design changes, including an MDFQ-based demand charge, should only be allowed after a reasonable and appropriate cost-of-service study is conducted and accepted by the Commission. *Id.* at 1474-1476.

Intermountain Rebuttal

In rebuttal, Intermountain argued that demand charges for a utility's large industrial customers are not atypical. *Id.* at 272. Further, a demand charge will help ration pipeline capacity by encouraging large customers to judiciously elect their MDFQs. Tr. at 1850. Intermountain assumed that demand charges would encourage T5 customers to set an MDFQ that protects peak day needs while keeping monthly charges as low as possible. *Id.*; 1851.

Intermountain next argued a demand charge is appropriate because its smaller- to medium-sized customers are bearing a proportionately larger share of fixed-cost recovery. *Id.* Intermountain stated that the T4 customer structure collects almost all fixed costs in the first two price blocks (in a declining block rate) with recovery weighted to the first-block. *Id.* at 1851-1852. Further, in 2016, only 10% of Amalgamated's therm use was billed in the first-block, while more than 70% was billed in the third-block, meaning that 70% of Amalgamated's usage contributed only to the variable cost of providing service, leaving other customers to provide the bulk of Intermountain's fixed-cost recovery. *Id.* at 1852.

Finally, Intermountain argued that Amalgamated has significantly ramped-up sales since 2009 and now accounts for nearly one quarter of Intermountain's Large Volume (LV) sales, whereas, in 2010, it was only 2% to 4% of LV sales. *Id.* at 1852-1854. Intermountain stated that "Amalgamated's combined 2016 annualized usage exceeds 2009 by over 1400%." *Id.* at 1857. The Company argued that this change created a far more pronounced inter-class subsidy, in Amalgamated's favor. *Id.* at 1850-1854. Intermountain argued that when considering both transport and energy costs, Amalgamated's increased transport cost of 65% is only a 2.6% increase in total cost of gas service, and that even at a 100% transport cost increase, the cost of delivered gas only increases by 4%. *Id.* at 1859-1860.

Commission Findings

We continue to adhere to the principle of cost causation, namely that the cost causing customer is responsible for the costs associated with its service. We also recognize that the Company's LV and T customers are aware, as is the Company, of the demand that each places on the system because we have a cost-of-service study showing load data for these customers. Consequently, it is now apparent the degree to which LV and T customers are subsidizing or being subsidized by others. The theory behind gradualism cannot supplant the principle of cost – causation – especially when the cost causation is known and measurable. Therefore, we find that the Company's proposals as they relate to the LV and T demand charge are reasonable and appropriate.

E. Demand Side Management (DSM) and Fixed Cost Collection Mechanism (FCCM)

As noted earlier in this Order, the Company proposed a DSM program with an associated decoupling mechanism. That mechanism, called the Fixed Cost Collection Mechanism (FCCM), is designed to separate the Company's revenues from its gas sales and thus remove the Company's disincentive to offer energy efficiency programs that might cause its customers to buy less gas. Tr. at 47. The Company maintained that its goal was to start with its proposed DSM and FCCM as a way to build toward a robust program at some point in the future. Tr. at 573.

Intermountain maintained that its RS-1 and RS-2 classes have experienced significant decline in net use per customer since 1990. Intermountain stated that because it cannot control external factors such as customer-initiated efficiencies, it must sever the link between earnings and sales, enabling it to promote and encourage lower consumption, while still collecting its underlying fixed costs. *Id.* at 665.

Intermountain stated that it is beholden to a high percentage of volumetric cost recovery so the Company is financially vulnerable to sales variations between rate cases. Tr. at 1933. Intermountain maintained that it needs fixed-cost recovery in order to avoid the need of filing more frequent rate cases. *Id.* The Company stated that FCCM calculated on a per-customer approach would protect the Company from under-collecting its allowed revenue requirement associated with new customers and the infrastructure needs they generate. *Id.* at 1934.

The Company opposed any cap associated with FCCM, arguing that its FCCM is a symmetrical mechanism that can result in a surcharge or credit to customers. *Id.* at 1941.

Staff

Although Staff supported the Company's proposed DSM program, Staff opposed the Company's proposed FCCM. Tr. at 1033-1035. Staff attested that Intermountain provided no documentation indicating declining use per customer or any other evidence of impact of other economic conditions. *Id.* Staff also noted that the FCCM would be used for the GS class even though the Company does not propose to offer GS DSM opportunities. *Id.* at 1032. Further, Staff maintained that Intermountain's five-year DSM spending plan would have an insignificant effect on energy savings in relation to total sales for all customer groups when compared with other Idaho utilities. *Id.* at 1030. Staff contended that the Company's proposed FCCM contains a provision to collect incremental customer fixed costs, but Intermountain provided no evidence that there are incremental costs to serve these customers. *Id.* at 1030-1032. Staff also maintained that an increase in the Company's allowed customer charge would reduce the need for the FCCM. *Id.* 1033. Finally, Staff asserted that the Company should implement DSM energy efficiency measures because it has now identified energy efficiency as a least-cost resource. Tr. at 1274-1275.

ICL/NWEC

ICL/NWEC asserted that Intermountain's DSM program is more of a fuel-switching incentive program than true DSM. Tr. at 970. ICL/NWEC maintained that Intermountain should broaden its proposal to include high-efficiency equipment, weatherization, low-flow shower heads and other methods of utilizing natural gas more efficiently. *Id.* at 982. ICL/NWEC stated that fuel-switching is not part of the Northwest Power Plan's definition of conservation. *Id.* at 971.

ICL/NWEC proposed that the Company's DSM program should be spread beyond its residential class to include the GS-1 class, with limitations, and that the program itself should be capped at 3% of annual sales. *Id.* at 983; 989. ICL/NWEC further stated that it will not support any DSM or FCCM without a corollary low-income program. *Id.* at 983.

Commission Findings

We find that DSM, as both a least-cost resource and an important element of promoting energy efficiency, is an important part of any utility's provision of service. Accordingly, we find it reasonable to authorize the Company to implement its proposed DSM program, recognizing that the Company represents that this program will be used as a starting point from which to develop more robust DSM offerings. We look forward to seeing the program develop.

While we authorize the Company to implement its DSM program, we do not find it reasonable or in the public interest to approve the Company's proposed FCCM at this time. We believe the Company must offer a more defined DSM program before we can authorize it to implement a FCCM. The Company's proposed DSM program is inadequate (in terms of its stated goal of robustness) to justify a fixed-cost recovery for perceived lost therm sales.

We note that market transformation, evolving economic conditions, weather and customer behavior are all part of the reality of the business of an LDC. And, while the Company maintains that it needs an FCCM to avoid more frequent rate cases, we note the Company has not filed a rate case in over 30 years. While Intermountain is to be commended for its ability to defer a rate case for such a long period of time, neither the frequency of rate cases nor the Company's DSM program as proposed are compelling reasons for establishing an FCCM in this case. We encourage the Company to do more in terms of energy efficiency, and note that neither DSM nor FCCM need be tied to a general rate case, but can be presented to this Commission at any time. We encourage increased evidentiary quantification of the Company's need for an FCCM and the benefits of its developing DSM program, and what it hopes to achieve through energy efficiency programs and fixed-cost recovery. Based on these factors and the lack of quantifiable evidence, we decline authorization of a FCCM.

F. Other Issues

(1) Convenience Fees, Western Union Fees, Credit/Collection Reports

Staff recommended that the Company remove a $1.99 convenience fee for payment by debit or credit card but that Intermountain could later file to defer its costs to provide this service through rates. Tr. at 1300-1301. According to Staff, all other methods of payment have transaction costs and are embedded in rates. Staff asserted that using cards to pay for services is now routine and that maintaining convenience fees carries a disparate impact on low-income customers, about 28% of whom are "unbanked" or "underbanked." *Id.* at 1302-1303. Staff stated that this could also reduce collection fees for Intermountain. *Id.* at 1304.

Staff also proposed that Intermountain, like Avista Utilities, should absorb or collect later in rates, the $1.00 fee it charges customers to use the authorized pay station (Western Union) for cash payments. *Id.* at 1306. Staff recommended that Intermountain file monthly reports regarding credit and collection activity, as do other utilities. *Id.* at 1318.

Intermountain

Intermountain opposed Staff's recommendation. Intermountain argued that if it pays a $1.99 convenience fee for customers, many customers would change from a less expensive payment method to a credit card payment in order to earn reward points. Tr. at 113. If ordered to cover this expense, Intermountain argued that it should be made whole as to its costs (both credit/debit card convenience fees and Western Union fee(s)), and that it would be willing to accept this additional expense if it could be deferred for later recovery in rates. *Id.* at 115. Intermountain also asked that if the Commission were inclined to adopt Staff's recommendation, that it be altered slightly to include submission of confidential credit and collection reports on a quarterly basis. *Id.* at 116.

Commission Findings

We decline to implement Staff's free payment proposal at this time. Adequate cost estimates and benefit analyses were not provided. We nevertheless encourage the Company to explore the possibility of removing these fees in the future to keep pace with what appears to be an emerging industry standard.

(2) Line Extension Issues; Vested Interest Refund Program

Staff recommended that Intermountain modify its line extension tariff to incorporate the Commission-approved ROR, and that Intermountain file a case to update its overall line extension policy no later than 90 days after this case ends. The Company agreed that an update needed to occur and suggested working with Staff in order to "prepare a compliance filing that updates Intermountain's Main & Service Extension provisions." Tr. at 1338.

Amalgamated Sugar

Amalgamated proposed an industry standard vested interest program for customer-funded line extensions and improvements. Tr. at 1424. This program would implement, for the first time for Intermountain, a vested interest tariff for customer-funded line extensions and system improvements. *Id.* at 1448. Amalgamated stated that its pursuit of the vested interest program would align with Company and party discussions related to the revision of the Company's Main and Service Line Extension tariff. *Id.* at 1450.

Commission Findings

We find it reasonable and appropriate for the Company to update its line extension tariffs to reflect the ROR approved in this case. Further, the updated tariff should accurately reflect the extent to which customer contributions associated with line extensions depend on ROR. We decline to order the Company to update other aspects of the overall line extension policy within 90 days following the conclusion of this case. Rather, we encourage Intermountain to modify its line extension policy as soon as possible to address changes in references, rules and vested interest policy.

IV. INTERVENOR FUNDING

Intervenor funding is available pursuant to *Idaho Code* § 61-617A and Commission Rules of Procedure 161 through 165. *Idaho Code* § 61-617A(1) states that it is the "policy of [Idaho] to encourage participation at all stages of all proceedings before this Commission so that all affected customers receive full and fair representation in those proceedings." The statute authorizes the Commission to order any regulated utility with intrastate annual revenues exceeding $3.5 million to pay all or a portion of the costs of one or more parties. *Idaho Code* § 61-617A(2).

Intervenor funding costs include: legal fees, witness fees, transportation and other expenses so long as the total funding for all intervening parties does not exceed $40,000 in any proceeding. *Id.* The Commission must consider the following factors when deciding whether to award intervenor funding:

> (1) That the participation of the intervenor has materially contributed to the Commission's decision;
>
> (2) That the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor;
>
> (3) The recommendation made by the intervenor differs materially from the testimony and exhibits of the Commission Staff; and
>
> (4) The testimony and participation of the intervenor addressed issues of concern to the general body of customers.

Id.

To obtain an award of intervenor funding, an intervenor must further comply with Commission Procedural Rules 161-165. IDAPA 31.01.01.161-165. The petition must contain an itemized list of expenses broken down into categories, a statement explaining why the costs constitute a significant financial hardship, and a statement showing the class of customer on whose behalf the intervenor participated. Rule 162; IDAPA 31.01.01.162.

As set out in greater detail below, the Commission received intervenor funding petitions from four parties, requesting a total of approximately $25,000.

A. CAPAI

CAPAI timely filed a Petition for Intervenor Funding seeking recovery of $9,500 in expenses, including an itemized list of expenses incurred. *See generally* CAPAI Petition for Intervenor Funding ("CAPAI Petition"). CAPAI stated that it is a non-profit corporation overseeing a number of agencies dealing with the causes and conditions of poverty throughout Idaho. CAPAI Petition at 9.

CAPAI asserted that its sole source of funding to cover the up-front costs of intervention is federal LIHEAP grant monies. *Id.* It maintained that it reduced expenses by not hiring outside experts and instead relied on its in-house expert and Executive Director. CAPAI also asserted it charged a per hour legal rate that is lower than the average first year associate in Boise, Idaho. *Id.* at 8-9.

CAPAI stated that it has materially contributed to the Commission's decision in this matter by specifically focusing on rate increases and rate design issues affecting the Company's low-income customers. *Id.* at 4. Specifically, CAPAI provided expert testimony and discovery related to the following low-income issues: (a) consolidation of residential classes; (b) increases to the customer charge; (c) tracking low-income data; and (d) implementation of a low-income weatherization program. *Id.* at 3-8.

CAPAI maintained that its recommendations differed materially from those of Commission Staff because it was the only party to propose a low-income data tracking program as well as the only party to propose a Low Income Weatherization Assistance Program, both to be developed through an advisory group. *Id.* at 7.

CAPAI contended that the issues it presented during the pendency of this case addressed issues representative of the Company's general customers. *Id.* at 10-11. Finally, CAPAI stated that Intermountain's low-income customers constitute a significant and increasing segment of the Company's residential ratepayers. Thus, CAPAI noted the importance of its low-income customer advocacy in this ratemaking proceeding. *Id.* at 10.

B. ICL/NWEC

ICL and NWEC jointly filed a timely Petition for Intervenor Funds ("ICL/NWEC Petition") in the amount of $5,678.27, including an itemized list of expenses incurred. ICL/NWEC Petition at 2. Both ICL and NWEC are non-profit organizations supported solely through charitable donations from their members and foundations. *Id.* at 3.

Both groups claimed that, due to the inherent instability of charitable contributions, intervention funding is essential. *Id.* While both groups stated that they were heavily involved in all aspects of this case, they "endeavored to limit the number of hours expended to the maximum extent possible, primarily by focusing on issues relevant to our constituents, and only seek[ing] recovery for a fraction of the total hours spend," and requesting legal and expert hourly rates that are well below market rates. *Id.*

ICL and NWEC asserted that they materially contributed to the Commission's decision in this matter by lending "a voice for Intermountain Gas customers who desire to conserve gas while keeping bills affordable." *Id.* at 3-4. Specifically, ICL and NWEC provided expert testimony and discovery related to the following issues: (a) conservation program implementation and proposed adjustments; (b) the delay and adoption of ICL and NWEC's changes to Intermountain's proposed FCCM; (c) the convening of an Energy Efficiency Advisory Group; (d) the adjustment of the customer and per therm charge; and (e) the rejection of fourth block general service class and inverted block per therm rates. *Id.* at 2.

ICL and NWEC maintained that their recommendations differed materially from those of Commission Staff because they insisted upon immediate development of cost-effective conservation measures, with specific recommendations, and the use of Intermountain's sister company Cascade Natural Gas as an example of the implementation of conservation measures. *Id.* at 4. ICL and NWEC also specifically criticized and offered improvement to Intermountain's FCCM, including their recommendation to immediately add certain general service customers. *Id.* at 5.

Finally, ICL and NWEC contended that the issues they presented addressed matters of concern to all Intermountain customers because rate design dynamics and gas conservation program(s) have the ability to affect customers by avoiding higher cost supply-side options and incent conservation. *Id.* at 5. Further, rate mechanisms like the FCCM – advocated for by ICL and NWEC – can reduce volatility for the Company, implicitly aiding customers who depend on Intermountain's services. *Id.*

C. NIGU

NIGU timely filed a Petition for Intervenor Funding ("NIGU Petition") seeking recovery of $10,000 in expenses, including an itemized list of expenses incurred. NIGU Petition at 2. NIGU is a non-profit social welfare organization advocating for certain industrial firm sales and transportation customers of Intermountain Gas who made voluntary contributions to support NIGU's participation in this case. *Id.* at 4. NIGU stated that it has a significant financial hardship because the costs for it to meaningfully participate in this proceeding exceeded its assessments to its impacted members. *Id.* at 5.

NIGU maintained that, while it hired an outside expert witness, it capped recovery of costs at $10,000, which does not include a request for any legal fees, travel expenses or any fees associated with the testimony and participation of NIGU's executive director. *Id.* at 2. Further, NIGU stated that it only seeks fees for time spent by its expert on research and drafting testimony related to ROE and revenue requirement and not on rate spread or rate design. *Id.*

NIGU stated that it has materially contributed to the Commission's decision in this matter related to revenue requirement, ROE, and rate design and spread. *Id.* at 5-6. Specifically, its experts provided testimony, analysis, discovery, and recommendations on: ROE, capital structure, adjustments to revenue requirement, viability and use of Intermountain's proposed COS study, and the demand charge for transportation customers based on customer MDFQ. *Id.* at 6-7.

NIGU maintained that its recommendations differ materially from those of Commission Staff, regarding ROE (although falling within the same range) and the use of a gas proxy group, sustainable growth DCF model, a risk premium model, and CAPM. *Id.* at 5. NIGU also recommended a change in capital structure from the Company's proposal and Staff's recommendation. *Id.* at 3. In addition, NIGU sponsored testimony on revenue adjustments that Staff did not address, including bonus depreciation, affiliate costs, and incentive compensation. *Id.* NIGU also disagreed with Staff as to rate spread and design, including by arguing that the Company's COS study was accurate and based on the best available data, and by supporting the $.30 per therm demand charge. *Id.* at 5-6.

NIGU maintained that the issues it addressed are representative of issues that would be addressed by Intermountain's industrial firm sales and transportation customers. *Id.* at 7.

Commission Findings

The Commission reviewed the Petitions, associated briefs, and the record of proceedings. Consistent with the policy expressed in *Idaho Code* § 61-617A, we encourage intervenors to participate in cases and decisions before us.

Based on their testimony and participation in this matter, we find that the Petitions for Intervenor Funding filed by CAPAI, ICL/NWEC, and NIGU comport with the procedural and technical requirements set forth in Rules 161-165 of the Commission's Rules of Procedure. We find that these intervenors have satisfied the criteria for an intervenor funding award under *Idaho Code* § 61-617A.

Specifically, we find that CAPAI, ICL/NWEC, and NIGU materially contributed to our decision in this matter by addressing issues important to our consideration. These include, but are not limited to, low-income customer interests (CAPAI), conservation issues (ICL/NWEC), and the perspective of Intermountain's industrial customers (NIGU). We further find that much of the intervenors' evidence, and many of their positions, materially differed from Staff's evidence and positions. Finally, we find that the intervenors addressed issues relevant to all consumers, providing us with a more complete framework in which to evaluate the case and render a decision in the public interest.

We appreciate the intervenors' participation and insights in this case. Having made the requisite findings under *Idaho Code* § 61-617A, we find it appropriate to grant their Petitions and award intervenor funding to CAPAI in the amount of $9,500, to ICL/NWEC in the amount of $5,678.27, and to NIGU in the amount of $10,000. Because, on balance, we find that the various perspectives provided by the funding applicants benefited all Company customers, that intervenor funding granted above should be spread on a proportional basis to all customer classes. Specifically, we direct that the total amount be allocated to the various customer classes according to the percentage of total base revenues generated from each class. This recovery will take place through the Company's 2018 Purchase Gas Adjustment (PGA) case before this Commission.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Intermountain Gas is a gas corporation and public utility subject to the Commission's regulation under the Idaho Public Utilities Law. The Company's rates, charges, classifications, rules, and practices related to gas service are subject to the Commission's jurisdiction. *See Idaho Code* §§ 61-117, -129, -501, -502, and -503.

Based upon the record, we find the Company's present rates, charges, classifications, rules, practices, tariffs, and schedules are insufficient, and that changing them as described in the body of this Order is justified. *See Idaho Code* § 61-122. In particular, we find that allowing the Company to increase its base rates for gas service by $4,119,055 (or 1.58%) will provide the Company an opportunity to earn a fair and reasonable return on its investment while providing safe and reliable service to customers. The Company is authorized to earn an overall ROR of 7.3%. We further find the Company's rate base to be $235,526,788. The Commission finds that the rate design approved in this Order is fair, just and reasonable. We also find the changes to Intermountain's rules, practices, tariffs and schedules in the public interest.

ORDER

IT IS HEREBY ORDERED that the Company immediately file tariffs and schedules in conformance with this Order, to be effective on May 1, 2017, for service rendered on and after that date. The authorized rates are set forth in Attachment A.

IT IS FURTHER ORDERED that the Company is authorized an overall ROR of 7.3%, and to recover an additional $4.12 million in annual base revenues.

IT IS FURTHER ORDERED that the Company is authorized to implement its proposed DSM program. The Company's request to implement a FCCM is denied.

IT IS FURTHER ORDERED that the Company move all customer classes toward cost-of-service, as specified in this Order and Attachment B.

IT IS FURTHER ORDERED that the Company combine its RS-1 and RS-2 classes; its T4 and T5 classes, and create a GS fourth block tier for customers using more than 10,000 therms, as specified in this Order.

IT IS FURTHER ORDERED that the Company increase its customer charge(s) and eliminate season-based charges, as specified in this Order.

IT IS FURTHER ORDERED that the Company implement a demand charge, as specified in this Order.

IT IS FURTHER ORDERED that the Company update its line extension policy and related tariff, as specified in this Order.

IT IS FURTHER ORDERED that the Company take such other actions as may be set forth in the body of this Order.

IT IS FURTHER ORDERED that intervenor funding is awarded to: CAPAI in the amount of $9,500; ICL/NWEC in the amount of $5,678.27; and NIGU in the amount of $10,000. These amounts will be recovered from all customers on a proportional basis, as more fully described herein.

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 28th day of April 2017.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

O:INT-G-16-02_sc2_kk_Final

Commission Ordered Revenue Requirement Summary (Attachment A)

Line No.	Description	Company Direct	Commission Order
1	Gas Operating Revenues	$ 251,900,147	$ 256,962,485
2	Other Revenues	2,900,363	$ 2,963,369
3	Total Operating Revenue	254,800,510	$ 259,925,854
4	Operating Expenses		
5	Cost of Gas	$ 168,822,659	$ 171,705,276
6	Operation & Maintenance		
7	Production	46,565	82,580
8	Natural Gas Storage, Terminaling, and Processing	1,383,094	1,124,985
9	Transmission	492,741	433,579
10	Distribution	18,736,256	18,305,396
11	Customer Accounts	9,267,200	9,084,125
12	Customer Service and Informational	202,610	171,769
13	Sales	1,236,871	1,131,006
14	Administrative and General	13,819,684	12,244,268
15	Other	-	-
16	Depreciation	21,707,112	20,859,316
17	Payroll Taxes	1,641,942	1,611,398
18	Property Taxes	3,198,871	3,191,226
19	Franchise Taxes	-	-
20	Interest Expense	-	-
21	Total Operating Expense		-
22	Before Income Taxes	$ 240,555,605	$ 239,944,924
23	Income Taxes	$ 2,750,218	$ 5,253,094
24	Total Operating Expenses	$ 243,305,823	$ 245,198,018
25	Net Operating Income	$ 11,494,687	$ 14,727,836
26	Gas Plant in Service:		
27	Original Cost	$ 596,065,559	$ 594,058,317
28	Less Accumulated Depreciation	$ (308,450,846)	$ (306,953,230)
29	Net Gas Plant in Service	$ 287,614,713	$ 287,105,087
30	Materials & Supplies Inventory	3,149,131	3,195,291
31	Gas Storage Inventory	3,195,613	3,225,344
32	Cash Working Capital	1,032,688	0
33	Accumulated Deferred Income Taxes	(50,172,477)	(49,976,423)
34	Advances in Aid of Construction	(7,893,171)	(8,022,511)
35	Rate Base	$ 236,926,497	$ 235,526,788
36	Rate Base	$ 236,926,497	$ 235,526,788
37	Operating Income at Present Rates	11,494,687	14,727,836
38	Earned Rate of Return	4.852%	
39	Cost of Capital	7.420%	7.300%
40	Operating Income at Proposed Rates	17,579,946	17,193,456
41	Operating Income Deficiency	$ 6,085,259	$ 2,465,619
42	Gross Revenue Conversion Factor	1.67055	1.67055
43	**Deficiency in Operating Revenue**	**$ 10,165,700**	**$ 4,119,056**
44	**Percent Increase**	**4.0356%**	**1.6030%**
45	**Total Revenue Requirement**	**264,966,210**	**264,044,909**
46	**Base Rate Revenue Requirment**	**93,243,188**	**89,376,264**

Line No.	Description		Company Direct		Commission Order
45	Capital Structure				
46	Total Debt	50.00%		50.00%	
47	Cost of Debt	4.94%	2.47%	4.94%	2.5%
48	Total Equity	50.00%		50.00%	
49	Return on Equity	9.90%	4.95%	9.50%	4.8%
51	Total Cost of Capital		7.42%		7.3%

ATTACHMENT A
ORDER NO. 33757
CASE NO. INT-G-16-02

Commission Ordered Class Revenue Allocation (Attachment B)

Class		Normalized Test Year Revenue		Commission Ordered Allocation	Percentage Change
RS	$	167,628,976	$	170,589,416	1.77%
GS		76,737,174		78,423,351	2.20%
LV		2,853,188		2,775,142	-2.74%
T-3		833,713		532,754	-36.10%
T-4		8,909,434		8,760,876	-1.67%
Gas Operating Revenues	$	256,962,485	$	261,081,540	1.60%
Other Revenues		2,963,369		2,963,369	0.00%
Total Operating Revenues	$	259,925,854	$	264,044,909	1.58%