

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF INTERMOUNTAIN GAS COMPANY) CASE NO. INT-G-16-02
TO CHANGE ITS RATES AND CHARGES)
FOR NATURAL GAS SERVICE IN THE) ORDER NO. 33879
STATE OF IDAHO)**

On August 12, 2016, Intermountain Gas Company (Company) filed a general rate case and asked to increase its overall rates by \$10.2 million (4.06%). The Company subsequently reduced its requested revenue increase to \$9.4 million (3.7%). Northwest Industrial Gas Users (NWIGU), Amalgamated Sugar Company (Amalgamated), Community Action Partnership of Idaho, Federal Executive Agencies, Idaho Conservation League/NW Energy Coalition, and Snake River Alliance intervened as parties to the case. The Commission held a public workshop, a public hearing, and a technical hearing, and issued Final Order No. 33757 on April 28, 2017, granting Intermountain a \$4.12 million (1.58%) revenue increase.

On May 18, 2017, the Company petitioned to reconsider the Final Order as to: (1) the data input into Staff’s weather normalization model; (2) the Commission’s preference for Staff’s weather normalization model over the Company’s model; (3) the disallowance of certain affiliated operations and maintenance (O&M) expenses; and (4) the disallowance of incentive compensation. With the Petition, the Company provided additional written comments and evidence. Staff subsequently filed an answer concurring that the Commission should reconsider weather normalization issues 1 and 2, and taking no position on issues 3 and 4. *See* Commission Staff’s Answer to [Intermountain’s] Petition for Reconsideration. No one else responded to the Petition or opposed the Commission reconsidering all four issues.

On June 15, 2017, the Commission granted the Petition and agreed to the “limited reconsideration” of “the four narrow issues raised in the Petition.” Commission Order No. 33789 at 3-4. The Commission directed the Company, Staff, and other interested parties to meet to narrow disputed facts and issues and explore settlement. *Id.*

The Idaho Conservation League/NW Energy Coalition subsequently submitted comments noting they took no position on the issues raised in the Petition and did not intend to participate in the reconsideration process. Staff, the Company, Amalgamated Sugar, and NWIGU then met as directed. Staff and the Company focused on the weather normalization

issues (Issues 1 and 2 above), while NWIGU and the Company focused on the disallowance of certain affiliated O&M expenses and incentive compensation (Issues 3 and 4 above). Following the initial meeting, the parties reported back to the Commission with a proposed schedule which the Commission adopted. *See* Order No. 33801.

As contemplated by Order No. 33801, the Company submitted additional written comments and exhibits regarding affiliated charges and incentive compensation expenses. No one responded to these filings. However, the Company and NWIGU engaged in settlement negotiations on these issues. The Company, Staff, and Amalgamated Sugar also continued to meet to discuss the weather normalization issues. *See* Motion for Approval of Stipulation and Settlement, at 3.

On August 16, 2017, Staff, the Company, and NWIGU signed a Stipulation and Settlement (the “Settlement”) resolving all four issues. The Company filed a joint Motion with Staff to approve the Settlement with accompanying testimony, and Staff filed supporting comments. No party opposed the Settlement. Amalgamated participated in settlement discussions and advised Staff that although it did not sign the Settlement, it does not oppose the Settlement.

SETTLEMENT SUMMARY

The parties to the Settlement agreed to the following compromises, subject to Commission approval:

1. Annual Revenue. Effective October 1, 2017, the Company will implement revised tariff schedules designed to recover \$1,219,206 (1.36%) more in annual revenue than the amounts approved in Order No. 33757. New rates will take effect October 1, 2017. Details are reflected in Exhibit A to the Stipulation, which revises Attachment A to Order No. 33757.

2. Billing Determinants. Annual weather normalized billing determinants for the Company’s: (a) residential customer class RS, including Residential Snowmelt, will be 213,576,738 therms; and (b) commercial customer class GS, including Commercial Snowmelt, will be 108,995,228 therms.

3. Consumption and Weather-Related Adjustments. The Company’s base revenue requirement will increase by \$6,065, while the overall revenue requirement would decrease by \$2,634,338 from the amounts approved in Order No. 33757.

4. Gas Consumption Normalization. In future cases, weather-based gas consumption normalization will reflect actual test year consumption, rather than forecast test year consumption, unless the Company and Staff agree in advance that forecast test year consumption is acceptable.

5. Weather Data. In future cases, heating degree days may be weighted using billing system customer counts or customer counts obtained from the Company's "weather system." But if weather system data is used, modeling results must be consistently adjusted for weather system and billing system differences for all months and customer classes.

6. Future Weather Modeling Methodology. No specific weather normalization methodology will be approved for this case (except as it relates to gas consumption normalization and weather data as outlined above). Before the Company's next general rate case, however, Staff, the Company, and interested parties will discuss and attempt to agree on consumption modeling methodology related to weather.

7. Affiliated Expenses and Incentive Compensation. The Company will recover \$1,206,500 more in annual expenses—which amounts to \$1,213,141 in both annual revenues and base rate revenues—related to affiliated expenses and incentive compensation. The Company and NWIGU negotiated this amount as a 50/50 split of the dollar amounts related to these two issues, after adjusting upward for \$328,000 of affiliated expenses double counted in Order No. 33757. This \$328,000 adjustment is included in the \$1.2 million increase in expense recovery/annual and base revenues referenced above.

8. Rate Spread. The additional \$1,219,206 (1.36%) in annual base rate revenues related to the above-described settlement(s) on "Consumption and Weather-Related Revenue Adjustments" and "Affiliated Expenses and Incentive Compensation," will be allocated among customer classes using the rate spread from Attachment B of the Second Errata to Order No. 33757, and a "50% move towards cost-of-service . . . for all affected customer classes." Order No. 33757 at 28. Exhibit B to the Stipulation is a revised Attachment B to Order No. 33757, reflecting the rate spread of the additional annual base rate revenues.

SUPPLEMENTAL TESTIMONY

The Company and Staff provided supplemental testimony and comments to support the Settlement as summarized below.

A. Intermountain Gas

The Company testified it believes the Settlement is fair, just, and reasonable and balances the interests of the Company and its customers. McGrath Direct at 1. The Company testified that negotiation and settlement of the weather normalization issues involved a “robust and free-flow of data, models, information and dialogue between the Company and Staff before, during and after the settlement conferences.” *Id.* at 2. The Company reiterated that the parties participating in the settlement process worked for countless hours to exchange information to better understand each other’s positions on weather normalization and balance competing models and methodologies. *Id.* at 4. The Company noted that the process was conciliatory on both sides to foster compromise. *Id.*

Negotiation related to affiliated expenses and incentive compensation was conducted by the Company and NWIGU. *Id.* Although the Company believed it met its burden of proving affiliated expenses and incentive compensation expenses by filing supplemental information and exhibits on June 30, 2017, it stipulated to a 50/50 dollar basis split—after agreed upon adjustments—to foster compromise and bring a strong and resilient conclusion to the case. *Id.* at 4.

As summarized above, the Company also presented its “Revised Commission Order Revenue Requirement Summary,” (Attachment A) which shows the Settlement would increase the Company’s base rate revenue requirement by \$1.2 million. *See id.* at 3; Attachment A to Settlement. The Company also testified about Settlement Attachment B, which shows that base rates for all customer classes would increase by 1.36% due to the allocation of the \$1.2 million base rate revenue requirement. *Id.* Finally, the Company stated it “believes that the final outcome of this process provided the Company with an acceptable balance between the Company’s need for timely cost recovery and the needs of its customers which were so ably represented by both Staff and NWIGU.” *Id.* at 5.

B. Commission Staff

Staff recommended that the Commission approve the Settlement as reasonable and in the public interest. *See* Staff Settlement Comments at 1; 4. Staff explained that it better understands the Company’s customer and consumption data, and the differences between the Staff’s and the Company’s consumption normalization methodologies. *Id.* at 4. While Staff may

still disagree on the quality of the underlying data and the most appropriate modeling techniques, Staff agreed with the Company on the billing determinants with which to establish base rates, and therefore found the Settlement terms to be reasonable. *Id.*

Staff agreed to compromise and accept lower billing determinants and slightly higher rates because: (a) the Settlement eliminates 73% of the difference between the billing determinants proposed by the Company, and those proposed by Staff and approved in Order No. 33757; (b) the stipulated billing determinants would only slightly increase the annual revenue requirement and base rates for residential and commercial consumption; and (c) the Company has agreed that following terms would govern weather normalization issues in future cases:

- (1) Unless otherwise agreed between Staff and the Company, consumption normalization methodology will be used to adjust actual test year consumption rather than to forecast test year consumption;
- (2) Any adjustment to customer or consumption input data will be uniformly and consistently applied to all customer classes and all months; and
- (3) Interested parties will meet before the next rate case to seek consensus on weather normalization methodology.

Id. Staff opined this compromise is reasonable and in the public interest because it will decrease the contentiousness of weather normalization issues in future cases, and help the parties better understand the Company's weather normalization and consumption data and modeling before the Company files its next general rate case. *Id.* at 5.

While Staff did not actively participate in the Company's and NWIGU's negotiations about affiliated expenses and incentive compensation, it supported the final negotiated settlement on these issues: a 50/50 split of disputed expenses between customers and shareholders with a class revenue allocation that follows the same fair and equitable cost distribution adopted by the Commission in Order No. 33757. *Id.*

DISCUSSION AND FINDINGS

A. Standard of Review

The Commission's process for considering settlement stipulations is set forth in Procedural Rules 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the Commission, the Commission will prescribe the procedures appropriate to the nature of the settlement to consider it. IDAPA 31.01.01.274. Further, proponents of a settlement must show that the settlement is reasonable, in the public interest, or otherwise in accordance with law or

regulatory policy. IDAPA 31.01.01.275. Finally, the Commission is not bound by settlement agreements. Instead, the Commission “will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” IDAPA 31.01.01.276.

B. Commission Findings

We have reviewed the extensive record in this case, including the Petition for Reconsideration, Settlement, and supporting testimony and comments. We note that the Settlement occurred after a fully litigated rate case involving public meetings and workshops, a vast amount of informal communication, formal discovery, and written testimony, as well as an almost three-day evidentiary technical hearing. All parties were afforded an opportunity to participate in the negotiations during reconsideration leading to the settlement of all issues, and have now either signed the Settlement or have not opposed it. Further, the settling parties—including the Company, NWIGU, and Staff—represent that the Settlement reasonably resolves the remaining issues in the case, including the weather normalization, affiliated expenses, and incentive compensation issues, and that it is in the public interest for the Commission to approve it.

Accordingly, based upon the entire record before us, and in order to “aid [in] securing a just, speedy and economical determination of the issues presented to the Commission,” we find it reasonable and appropriate to accept the Settlement in the public interest. IDAPA 31.01.01.273. Our rationale for accepting the Settlement is more fully described below.

1. Weather Normalization

The weather normalization issues in this case were opaque and involved highly technical expert testimony. We appreciate that the parties found some common ground on which to agree. We also find that the terms, as outlined in the Settlement and Attachments A and B thereto, reasonably resolve the weather normalization issue at this time. We note that the billing determinant compromise will slightly raise the revenue requirement and rates in this case. But we find this change is reasonable and in the public interest because the parties agreed-upon approach to weather normalization for future cases will help the Commission, parties, and customers better understand the Company’s weather normalization data and method, enhance transparency and consistency in ratemaking, and lead to more fair, just, and reasonable rates.

Therefore, without explicitly approving the weather normalization methodology for future use, we find the end result of the Settlement to be reasonable. A debate of appropriate methodology can occur in a future case. Meanwhile, we continue to encourage the parties to work together to foster a greater understanding and knowledge base with which to improve the Company's weather normalization methodology.

2. Affiliate Expense and Incentive Compensation

While the Company maintained that it carried its burden of proof because it introduced additional evidence on reconsideration to which no party responded, we make no explicit finding on the weight of the additional evidence provided by the Company during the reconsideration process. *See McGrath Settlement Direct at 2-4.*

We accept for purposes of settlement and find reasonable the Settlement as it relates to affiliated expenses and incentive compensation. As stated in Order No. 33757, it is reasonable and appropriate to allocate some affiliate expenses. We encourage the Company to be mindful of the heightened scrutiny of affiliate expenses. We agree with the Company and NWIGU that a 50/50 split is a reasonable compromise in this case.

We also accept as reasonable a split regarding incentive compensation. While we acknowledge it may be difficult for the Company to show that its incentive compensation programs improve operational efficiency, customer service, and safety, the Company must still carry that burden to fully recover those costs in rates and we reiterate our findings related to the burden of showing the reasonableness of incentive compensation cost recovery in Order No. 33757.

We find it is reasonable to increase the previously approved recovery: (a) because the \$328,000 "double counting" adjustment must be made; and (b) to allow the Company proportional recovery of expenses actually incurred. We agree with the Company, NWIGU, and Staff that this amount fairly and reasonably resolves the issue of affiliated expenses and incentive compensation at this time, and allocates the increased costs in line with our previously approved move toward a more proper class revenue allocation.

C. Conclusion

In summary, for the above reasons we find that the Settlement, including its terms on revenue adjustment, billing determinants, consumption and weather adjustments and normalization, weather data, future weather modeling methodology, affiliated expense, incentive

compensation, and rate spread, and proposed effective date of October 1, 2017, is just, fair and reasonable. The Commission appreciates the parties' hard work on the Settlement and their ability to resolve the contentious, outlying issues presented on reconsideration.

ORDER

IT IS HEREBY ORDERED that the Company and Staff's Joint Motion for approval of Stipulation and Settlement, with Attachments A and B, is granted; the approved Stipulation and Settlement shall be implemented as outlined in this Order and in the Stipulation and Settlement, including Attachments A and B, with an October 1, 2017, effective date. The Company shall promptly file conforming tariffs.

THIS IS A FINAL ORDER ON RECONSIDERATION. Any party aggrieved by this Order or other final or interlocutory Orders previously issued in this case may appeal to the Supreme Court of Idaho pursuant to the Public Utilities Law and the Idaho Appellate Rules of Procedure. *See Idaho Code § 61-627.*

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this ^{14th} day of September 2017.



PAUL KJELLANDER, PRESIDENT



KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

O:INT-G-16-02_sc2_Final Reconsideration