(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR APPROVAL OF A TRANSPORTATION IMPLEMENTATION AGREEMENT BETWEEN INTERMOUNTAIN GAS COMPANY AND EASTERN ENERGY MARKETING, INC. | )  )  )  )  )  )  ) | CASE NO. INT-G-96-5  ORDER NO.  26628 |

On August 9, 1996, Intermountain Gas Company (IGC; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for approval of a Transportation Implementation Agreement (Implementation Agreement) between IGC and Eastern Energy Marketing, Inc.  (Eastern).

The Implementation Agreement for which approval is requested is dated August 1, 1996, and by its terms would expire April 1, 2017.  The Agreement reflects that IGC and Eastern are also parties to a Natural Gas Transportation Contract and related Facilities Extension Agreement both dated December 26, 1995.  Copies of both December 26 agreements are on file with the Commission in Case No. INT-G-96-5.

As reflected in the Facilities Extension Agreement, IGC proposes to extend facilities and provide natural gas transportation service to Eastern’s electric cogeneration plant located adjacent to Magic Valley Foods in Rupert, Idaho.  IGC’s estimated cost of facility construction and modification is $931,290.

Subject to all of the terms and conditions of the Natural Gas Transportation Contract and Facilities Extension Agreement, the parties in the Implementation Agreement have agreed and proposed that Section 5 of the Natural Gas Transportation Contract be implemented as follows:

Subject to the approval of the Idaho Public Utilities Commission (“IPUC”), the initial rate the Company shall bill and the customer will pay is 2.065¢ per therm for all gas transported from and to the receipt and delivery points set forth in Section 4 of the Natural Gas Transportation Contract.  Unless a different rate or schedule is agreed to by the Company and the customer, the initial rate, upon the approval of the IPUC, shall be increased from time to time by the same percentage that the company’s existing T-3 rate is increased.  However, such increase shall not apply to the rate charged for any deficiency volumes that may occur pursuant to Section 6 of the Facilities Extension Agreement.  The Company acknowledges the customer’s standing in any IPUC proceeding that may impact or adjust the T-3 rate.

Intermountain Gas maintains that Eastern’s proposed natural gas load (MDFQ 26,660 therms/day) qualifies it as an industrial customer.  Intermountain Gas further maintains that Eastern has the ability to bypass IGC’s distribution system.  The price contained in the Implementation Agreement, IGC contends, is the minimum necessary to: 1) provide Eastern with the necessary economic incentive to discontinue its plans for a direct bypass of IGC’s distribution system, and 2) recover IGC’s cost of providing firm distribution service.

A Notice of Application and Modified Procedure was issued on August 29, 1996.  Reference Commission Rules of Procedure, IDAPA 31.01.01.201 et seq.  The deadline for filing written comments or protests was Thursday, September 12, 1996.  The Commission Staff was the only party to file comments.  Staff recommended approval of the Agreement with specific accounting recommendations.

On September 13, 1996, Intermountain Gas Company filed a letter response to Staff’s comments and proposed a different accounting treatment.  The matter was then put on the Commissions decision agenda and was subsequently withdrawn at the request of the Company which wanted additional time to explore whether an agreement could be reached with Staff regarding appropriate accounting treatment

On September 26, 1996, Intermountain Gas Company made a letter filing with the Commission outlining the terms of an agreement reached with the Commission Staff regarding accounting for the Implementation Agreement with Eastern.  As reflected in the letter, Staff and the Company have agreed to the following points:

1.Intermountain will apply a ten (10) year booked depreciation life to the incremental  plant constructed to serve Eastern.

2,During years three (3) through ten (10) of the contract guarantee period with Eastern, Intermountain will accrue a customer refund to account 186-XXX, calculated as follows:

Total Annual Eastern Revenue $XXX,XXX

Refund Rate30%

Refund$XXX (30% of revenue)

The above refund will be applied to the Company’s annual Purchased Gas Adjustment (PGA) filing.  Unless superseded by the terms contained under paragraph 3 below, a “refund true up” will be calculated at the end of the tenth year of the contract period.  The refund true up will be calculated pursuant to the method outlined in paragraph 3c below.  If the balance in the refund true up account reaches $150,000.00 at any given time, a refund true up will be applied to the Company’s PGA during the year the true up reached said limit.

3.If . . . a general rate case proceeding [is initiated] prior to the tenth year of the contract with Eastern, the following actions will take place:

A.The rate base associated with the Eastern project will be included in the Company’s case;

B.Any sharing pursuant to the Eastern contract will cease and the Company’s tariffs on an ongoing basis will embody the revenues, expenses, and rate base associated with the Eastern contract;

C.An attachment to the Company’s correspondence (and to this Order) sets forth the calculation used to determine the customer refund.  The attachment will be updated with actual rate base and expense figures, in order to calculate what the customer refund should have been based on historical actuals.  The amount actually refunded to customers will then be compared with the amount that should have been refunded, and a “refund true up” will be calculated and included in rates.

Intermountain Gas requests that any Order made in Case No. INT-G-96-5 include the stipulations set forth above and agreed to by the Company and Commission Staff.

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case No.  INT-G-96-5 including the comments of Commission Staff, the Company’s letter response, and the September 26 letter outlining the terms of Company and Staff agreement.  The Commission continues to find that the issues presented are suitable for processing under Modified Procedure, i.e., by written submission rather than by hearing.  We find it reasonable to approve the Implementation Agreement with the accounting treatment outlined above.  We find the terms of the Implementation Agreement to be reasonable including the rate and pricing mechanism.  We find that the proposed method of depreciation of customer related facilities protects existing ratepayers from the risk of stranded costs at the end of the initial ten year contract guarantee.  We find that the contract rate remains necessary to enable IGC to price natural gas competitively and to obtain Eastern, which has the ability to bypass IGC’s distribution system, as a customer.  We further find on the basis of the information presented that the contract rate will cover the Company’s embedded cost of providing service to Eastern.  Based on our review of the filings of record in Case No. INT-G-96-5, the Commission finds service to Eastern under the terms and conditions of the submitted Implementation Agreement to be reasonable.

CONCLUSIONS OF LAW

The Commission has jurisdiction over Intermountain Gas Company, a gas utility, and the matters presented in Case No.  INT-G-96-5 pursuant to Idaho Code Title 61 and the Commissions Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

In consideration of the forgoing and as qualified above, the Commission DOES HEREBY ORDER that the proposed Transportation Implementation Agreement between Intermountain Gas Company and Eastern Energy Marketing, Inc., submitted for approval in Case No, INT-G-96-5, be approved effective the date of this Order.

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                  day of October 1996.

                                                                                                                                      RALPH NELSON, PRESIDENT

                                                                                           MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

cm/O:intg965.sh

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

October 7, 1996