DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:SEPTEMBER 26, 1996

RE:CASE NO. INT-G-96-5

TRANSPORTATION IMPLEMENTATION AGREEMENT

IGC/EASTERN ENERGY MARKETING, INC.

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.

Intermountain Gas requests an effective date of September 16, 1996.  The Company maintains that the public interest does not require a hearing on its Application and requests that the matter be processed under the Commission’s rules of Modified Procedure.

A Notice of Application and Modified Procedure was issued on August 29, 1996.  The deadline for filing written comments or protests was Thursday, September 12, 1996.  The Commission Staff was the only party to file comments (attached).  Staff recommends approval of the Agreement with the following accounting recommendations:

▸Characterizing the Agreement as a special contract and noting that Eastern has only guaranteed that they will take or pay for 8,781,000 therms for the first ten years, Staff recommends that the facility cost be depreciated over the initial ten-year period.  By using a ten-year depreciation period, Staff contends that existing ratepayers would be protected from stranded costs at the end of the guaranteed period.

▸Staff recommends that 50% of the annual revenue remaining after deducting the accelerated deprecation be deferred and applied as a credit in the Company’s purchased gas cost adjustment (PGA) trackers.

On September 13, 1996, Intermountain Gas Company filed a letter response to Staff’s comments (attached).  The Company notes that prior contracts subject to PGA crediting were unique in that they were for uncertain natural gas usage for very short time durations.  The proposed special contract, the Company distinguishes, includes guaranteed usage and a 20-year commitment.  As represented by the Company, its financial analysis for this project includes the assumption that 100% of the revenues received from the contract flow to a resultant cash flow which supports the investment in the infrastructure necessary to flow gas to the Eastern cogeneration facility.  (The Company is actually saying that all contract revenues are necessary to cover the costs of providing service (including return on investment).)  To restrict cash flows via the PGA crediting mechanism, the Company states, will result in a lower return on the project investment, thereby creating the need for cross-subsidies from other IGC customers.

Although agreeing that an accelerated book depreciation schedule would not affect the cash flows of the proposed project, the Company points out that the risk of stranded investment in this case is minimized by the underlying 20-year PURPA contract.

On September 26, 1996, Intermountain Gas Company made a letter filing with the Commission (attached) 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 which the Company now wishes to become part of the record in this case:

1.Intermountain will apply a ten (10) year booked depreciation life to the incremental  plan to 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 Rate 30%

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.Attachment 1 to this correspondence sets forth the calculation used to determine the customer refund.  Attachment 1 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 Decision

IGC requested a September 16, 1996 effective date but acquiesced to a continuance of the matter on the Commission’s decision calendar.  Staff concurs with the Company’s representations in its September 26 letter and in accordance therewith recommends approval of the Eastern Agreement.  Should the Company’s Application and the Eastern Implementation Agreement be approved with accounting stipulations agreed to by Intermountain Gas and Commission Staff?

Scott Woodbury

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