DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVID SCHUNKE

SYD LANSING

TERRI CARLOCK

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:FEBRUARY 18, 1997

RE:CASE NO. INT-G-96-7

COMPOSITE DEPRECIATION RATE

Intermountain Gas Company (IGC; Company) filed an Application with the Idaho Public Utilities Commission (Commission) on December 30, 1996 requesting authority to increase its composite depreciation rate from 3.89% to 3.98%.

The Company’s presently authorized composite depreciation rate of 3.89% was approved by the Commission in Case No. INT-G-94-1 Order No. 25444, dated March 22, 1994.  In its Order the Commission stated:

As before, our level of comfort with the reasonableness of such depreciation rates is enhanced by periodic review, which the Company previously stated is required for its depreciation study methodology.  We therefore find it reasonable that the Company continue to examine its depreciation rates and practices on three year intervals. . . . We also find it important to monitor and revisit this matter in three years.

Based on an updated depreciation study by AUS Consultants, the Company concludes that the current rate is under-depreciating its assets.  The effect of the requested higher rate would be to increase IGC’s depreciation accrual and decrease IGC’s rate base by $133, 817 annually.  As proposed, the total annual depreciation accrual would increase to $8,080,654.  Although the Company’s depreciation expense would increase under its proposal, the present Application does not request a related increase in rates.  The Company has requested that the increase to the annual composite depreciation rate be made effective at the beginning of its fiscal year, October 1, 1996.

IGC requests that its Application be processed pursuant to the Commission’s Rules of Modified Procedure, i.e., without hearing.

A four page summary of the depreciation study is included with the Company’s Application. The complete depreciation study with work papers, which the Company states are voluminous, are available for inspection at IGC’s general business office, which is located at 555 South Cole Road, Boise, Idaho.

Based on its initial review in this matter, the Commission made a preliminary determination that the public interest may not require a hearing to consider the issues presented and that the issues raised by the Company’s filing could be processed under Modified Procedure, i.e., by written submission rather than by hearing.  Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.  Commission Notices of Application Modified Procedure were issued on January 14, 1997.  The deadline for filing written comments or protests was February 5, 1997.  Commission Staff was the only party to file comments (attached).

Staff reviewed the depreciation study performed by AUS Consultants.  The depreciation study consists of 24 accounts.  Thirteen accounts indicate that a reduction in the depreciation rate is proper; and 11 accounts indicate that an increase in depreciation is proper.  The net recommended change in all 24 accounts is an increase of $133,817.  The largest recommended decrease in depreciation is related to Account 391, Office Equipment.  The proposed Account 391 rate of 11.33% is less than the current 13% rate amounting to a decrease of $85,208 per year.  The largest recommended increase in depreciation of $123,059 per year is related to Account 392, Transportation Equipment.  The proposed Account 392 rate increases from 5.37% to 8.85%.

Staff notes two accounts of some concern 1) Account 365 Right-of-Way and 2) Account 385 Regulator Station–Industrial (Meters and Equipment).  The Right-of-Way account has a large adjustment because the Company wants to write-off the right-of-way agreement cost paid to the Indian Reservation Council over the shorter life of the contract instead of the life of the assets installed in the right-of-way.  The purported justification is that the Tribe will probably demand additional payment to renew the contract, and the Company will probably end up paying an additional amount to avoid abandoning the assets.  The annual difference in this issue is about $7,000.

Account 385 causes concern to Staff because the net salvage percentage changes from a negative 2% to negative 5%.  No real information is presented in support of this change other than the experience of the consultant.  This change equates to approximately $35,000 per year.

Staff recommends that the depreciation study be accepted and that the Company be permitted to book the depreciation rates as requested.  Staff also recommends that the Company be required to keep the depreciation studies up to date.  As per prior Commission direction the Company has been required to examine its depreciation rates and practices on three year intervals.

Staff in its filed comments had also recommended that the depreciation rates be justified by the Company in a rate case.  The Company has requested and Staff agrees that this recommendation be withdrawn.

Commission Decision

Intermountain Gas has requested authority to increase its composite depreciation rate from 3.89% to 3.98%.  Does the Commission believe that the proposed depreciation rate is reasonable?  Does the Commission continue to believe that the Company’s depreciation rates and practices should continue to be examined on three year intervals?  The Company has requested that the proposed increase be made effective October 1, 1996, the beginning of its current fiscal year.  Is this request reasonable?

Scott D. Woodbury

bls/M-intg967.sw2