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

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| IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO PLACE INTO EFFECT A TEMPORARY PRICE ADDER THAT ENABLES NATURAL GAS SERVICE TO THE TOWN OF HOMEDALE, IDAHO.                                                                                         | ))))))) | CASE NO. INT-G-97-1ORDER NO.  26964 |

On April 8, 1997, Intermountain Gas Company (IGC; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to place into effect a five-year temporary price adder that will enable the extension of natural gas service to the town of Homedale, Idaho.  Reference Idaho Code 61-307; 61-622.  The Company represents that Homedale is contiguous to IGC’s current service territory.

IGC proposes that prices for natural gas service to RS-1, RS-2 and GS-1 customer classes in the town of Homedale be $0.28184/therm higher than prices charged to the Company’s other customers.  As represented, the price adder eliminates any need for existing customers to subsidize IGC’s incremental investment in the project.  The rules and regulations relating to natural gas service in the town of Homedale will otherwise be consistent with the Company’s existing tariffs for other areas.

As clarified in Company correspondence filed with the Commission April 21, 1997, the proposed price adder will apply, in lieu of a contribution in aid to construction, for new natural gas services to customers

1.located within identified area on a submitted Homedale city map;

2.for customers whose property is adjacent to the initial steel main or plastic distribution system, and whose home or business is within 200 feet of the public right-of-way.  This condition is meant to exclude residents and businesses located within the city limits of Wilder.

Any customers not meeting the above conditions, who are further than 200 feet from the natural gas line constructed to serve the city of Homedale will be evaluated for line extension based on the Company’s current main and service extension policy.  The additional margin of the proposed Homedale price adder will not be used as part of the main and service financial evaluation.  If any contribution in aid of construction is warranted from the financial valuation, the customer will be required to pay the contribution in addition to being subject to the Homedale price adder.

The proposed effective date for the price adder is September 1, 1997.  The Company has requested Commission approval by June 1 to allow for the construction and completion of the project.

IGC contends that there is an economic demand and local governmental support for extension of natural gas service to Homedale.  The Company’s Application is accompanied by workpapers (market penetration, capital expenditures, financial analysis).

Commission Notices of Application and Modified Procedure in Case No. INT-G-97-1 were issued on April 29, 1997.  The deadline for filing written comments or protests was May 20, 1997.  The Mayor and Council of the City of Homedale filed a letter supporting the Company’s proposal.  The Commission Staff also filed comments.  Staff believes that the project has merit and should be approved with some adjustments.

The recommended adjustments of Staff are: (1) a limit on the amount of earnings that the Company can keep during the period of the tariff adder.  (2) an adjustment to the investment per customer so that other customers will not need to subsidize the Homedale project after the tariff adder is ended.  Staff recommends that the tariff adder (28.184¢ per therm) continue for an additional two years (total of seven years) so that the Homedale customers can buy-down the investment per customer.  Staff recommends that the additional revenue and buy-down be recorded as an increase in accumulated depreciation thus permanently reducing rate base.

Pertinent excerpts from Staff comments are as follows:

The total amount projected for the project before any service connections to customers is $591,328.32.  The service connections to customers are projected to be $193,081.00 over a five-year period.  The customer service connections for the first year are projected to cost $78,515.00 and customer service connections for the following four years are projected to be about $30,000.00 each year.  After the project is completed the total cost is expected to be about $785,000…

IGC’s proposal utilizes an estimated 327 Homedale customers, 40% of potential customers.  Additional customers or additional usage could produce more than the Company’s modeled 12.5% return.  One way to eliminate potential over-earnings would be to compare the actual project revenue received from the adder paid by Homedale customers to the estimated revenue of $413,566 with any excess being applied to accumulated depreciation to reduce the investment per Homedale customer.

The Company estimates the average investment for the Homedale project to be $2,398.81 per customer.  At the end of five years, when the adder is scheduled to end, there will still be an investment net of depreciation of $662,792, or $2, 027 per customer.  The existing line extension policy allows an investment of approximately $1000-$1100 for customers who will use approximately 900 therms per year.  Allowance of a higher than average investment cost per customer would burden customers not associated with the Homedale project.

Staff suggests the tariff adder be extended for an additional two years.  Additional amounts received should be used to reduce the net cost per customer, similar to a contribution in aid of construction.  The tariff adder from 327 customers for the additional two years will create $113,500 per year.  Additionally, booked depreciation per year will be $29,937.  Under the Staff proposal, at the end of the seventh year the net investment on the books per Homedale customer would be $1,150.

Intermountain Gas Company in letter response dated May 23, 1997, asserts that its estimated 40% market penetration rate is reasonable given the type and age of residences in Homedale and the attendant expense in converting electric baseboard or ceiling heat to natural gas.  The Company states that it does not want to be burdened with the administrative overhead with tracking of revenue and true-up.  The Company also opposes extension of the adder from five to seven years.  In the spirit of compromise, the Company states that it is willing to apply the after tax price adder in years four and five as a reduction to the Homedale undepreciated plant or rate base.  Commission Findings

The Commission has reviewed and considered the filings of record in Case No.  INT-G-97-1 including the comments of the Commission Staff and the Company’s related reply. The Commission continues to find it reasonable to process this Application pursuant to Modified Procedure, i.e., by written submission rather than by hearing.  IDAPA 31.01.01.204.  This Commission strongly supports the Company’s efforts to bring natural gas service into outlying and rural communities.  We agree with Staff that there must be a reasonable attempt by the Company to structure plans for extension of service facilities into adjacent and contiguous areas in such a manner that the investment for new customers does not negatively impact existing customers.  While we will not approve service at any cost, we nevertheless find the Company’s proposal in this case as modified by its May 23, 1997, letter to be reasonable.  The potential impact on existing customers is certainly minimized by the Company’s agreement to apply the after tax price adder in years four and five as a reduction to rate base.  The Commission also relies on the Company’s assurance in its Application that the proposed adder will eliminate the need for existing customers to subsidize Intermountain Gas Company’s incremental investment in the project.

CONCLUSION OF LAW

The Idaho Public Utilities Commission has jurisdiction over this matter and Intermountain Gas Company, a natural gas utility, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission’s Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED that the Application of Intermountain Gas Company in Case No. INT-G-97-1 to extend natural gas service into Homedale, Idaho, and to charge Homedale RS-1, RS-2 and GS-1 customer classes a price adder of $0.28184 per therm for five years effective September 1, 1997, expiring September 1, 2002, be approved.

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 May 1997.

                                                                                                                                       DENNIS S. HANSEN, PRESIDENT

                                                                                            RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

June 2, 1997