DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

SYD LANSING

TERRI CARLOCK

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:May 23, 1997

RE:CASE NO. INT-G-97-1

NATURAL GAS SERVICE TO HOMEDALE

APPLICATION FOR TEMPORARY PRICE ADDER

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.  Commission Staff was the only party to file comments (attached).  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.

Commission Decision:

Should the Company’s Application to provide natural gas service to Homedale be approved?  As filed or with adjustments?  If with adjustments, which adjustments does the Commission find appropriate?  (1) A limit on the amount of earnings that the Company can keep during the period of the tariff adder?  (2) A two year extension of the tariff adder?  Any other adjustment?  Parenthetically, Staff notes that the Company’s Certificate may be in need of updating. Referencing paragraph 1 to the Company’s underlying Application in this case, the Company notes that it provides service only to Bruneau in Owyhee county.  Since last updated the Company has extended service in that County alone to Wilder and Greenleaf.

Scott Woodbury

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