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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION OF )

INTERMOUNTAIN GAS COMPANY FOR)CASE  NO.  INT-G-97-1

AUTHORITY TO PLACE INTO EFFECT A)

TEMPORARY PRICE ADDER THAT)

ENABLES NATURAL GAS SERVICE TO THE)COMMENTS OF THE

TOWN OF HOMEDALE, IDAHO TO BE)COMMISSION STAFF

EFFECTIVE JUNE 1, 1997.)

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COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the application filed by Intermountain Gas Company (IGC) on April 8, 1997, submits the following comments.

SUMMARY

Staff believes that the project has merit and should be approved with some adjustments to protect the existing customers.  The recommended adjustments 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 has ended.  Staff recommends that the tariff adder (28.184 cents per therm) continue for an additional two years (total of seven years) so that the Homedale customers can buy down the investment per customer.  The additional revenue and buy down should be recorded as an increase in accumulated depreciation thus permanently reducing rate base.

PROJECT DESCRIPTION

Intermountain Gas Company (IGC) has applied to the Commission requesting authorization to establish and extend natural gas service to the area of Homedale, Idaho.  The installation will be about 4.75 miles of 4-inch high pressure steel pipe.  The route of the installation is from the existing pressure station at Wilder, Idaho along the right of way for Highway 95 to the south side of the bridge crossing the Snake River at Homedale.  The pressure of the natural gas in the steel line is expected to be 330 pounds per square inch from the existing station in Wilder to a new station to be built as part of this project in Homedale.

In order to deliver the natural gas from the new station in Homedale, there will be approximately 6,500 feet of plastic 4-inch main line through the town of Homedale with about 46,000 feet of 2-inch plastic pipe forming a network of distribution lines through the streets and alleys of the town.  The pressure will be reduced at the station so that the plastic pipe on the system will carry the natural gas at about 55 pounds per square inch.

All of the material for the project will be bought by IGC with a projected cost of $139,589.68.  The installation will be done as part of a continuing contract with Hood Corporation which has a contract with IGC to make all of the line installations in this part of the state.  The installation costs are projected to be $434,238.64.  There are other projected costs such as permits and tests totaling about $17,500.00.  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.

COST RECOVERY/COMPANY PROPOSAL

The Company calculates that there should be a tariff adder of $0.28184 per therm exclusively for the customers of that project for the first five years of operations.  The Company has a computer model that determines how much profit the Company will make from any given project over a thirty-year period.  The IGC model calculates the return on its investment over that thirty-year period.  If the model shows that a lesser return is anticipated, added funds are necessary, e.g., a contribution in aid of construction or additional revenue for some period of time.  IGC calculates through its model that additional revenue of $413,566 is necessary for the

Homedale project to yield a 12.5% return over a thirty-year period.  At the same time the tariff adder is anticipated to be in place, regular tariffs are expected to produce about $976,491.

The Company states that:  (a) with the adder the new customers pay the added amounts at the front end of the project, (b) that over the period of thirty years the Company earns only 12.5% return on the project on a stand-alone basis, and (c) that over the same thirty-year period the customers not associated with the Homedale project provide the same return on investment.  Therefore, the new project customers pay their own way with a reasonable profit to the Company and there is no disadvantage to other customers.

STAFF ANALYSIS

Staff is supportive of the price adder concept in order to provide gas service into areas that would otherwise be uneconomical to serve.  Staff is concerned however, that the Company’s proposal could place a burden on existing customers.

It also creates an inequity between new customers served under the existing line extension rule and those served under this proposal.  Obviously this is a more attractive proposal for the new customers no matter where they might be, and if this is approved, it is difficult to see how similarly situated customers wanting service could be denied this same offer.  Staff is concerned that the historic line extension policy that requires new customers to pay a contribution in aid of construction may be challenged on a point of equity.  Therefore a reduction of the investment per Homedale customer is appropriate.

Staff finds:  (1) The adder is calculated with an estimated customer base of about 40% of the potential customers.  The history of IGC indicates that about 60% of the potential customers actually become customers.  Therefore, the potential exists that revenue to be received from the adder may be understated.  (2) Even though this project will produce the same rate of return on investment as other projects over a thirty-year period, it is certain that the average rate base per customer for the Homedale project will be higher than the average for other customers for the entire thirty-year life of the investment.  Therefore, all customers will be required to support a higher per customer rate base when the tariff adder is ended and the project is included in rate base.  Staff believes that the Company and the Homedale customers will benefit from the Company’s proposal; however, the general body of customers will be disadvantaged.

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.

Under the Staff proposal, the Homedale customers will have an incentive to connect because the cost of natural gas even with the adder is still cheaper than any alternative.  IGC estimates that even during the period of time that the customer pays the tariff adder, the Homedale customers will pay 25% less per therm for heat than they do now, regardless of which form of heating the customer currently utilizes.  After the tariff adder ends, the savings to the customer will be more substantial.  Staff believes that this will be reasonable for the Company, the Homedale customers, and the other IGC customers.

DATED at Boise, Idaho, this            day of May 1997.

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Scott Woodbury

Deputy Attorney General

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