Idaho Public Utilities Commission
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Case No. INT-G-16-02, Final Order
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Intermountain Gas rates to increase 1.58 percent

BOISE (May 1, 2017) – Rates for customers of Intermountain Gas Company increase by an average 1.58 percent today.

Intermountain Gas originally sought a 4 percent increase when it filed a rate case with the Idaho Public Utilities Commission last August. Later, during a three-day technical hearing, the company revised its request to an average 3.7% increase.

The commission's final order approves an increase in Intermountain Gas' annual revenue requirement of $4.12 million. The company originally requested $10.2 million, but later revised that downward to $9.35 million.

Part of the 1.58 percent increase is an adjustment in the monthly customer service charge to $5.50 for residential customers and $9.50 for commercial customers. Intermountain requested $10 for residential customers and $35 for commercial customers. The current charge for residential customers is $2.50 per month from April through November and $6.50 in December through March, while commercial customers pay $2 per month from April to November and $9.50 in December through March.

Intermountain Gas serves about 334,650 customers in 75 communities across southern Idaho. This was the first general rate case filed by the company in 31 years.

Since its last rate case in 1985, the number of Intermountain Gas residential customers has increased from 85,400 to more than 300,000. In the same period, the number of commercial customers has increased from 13,300 to nearly 32,000. While more customers increase sales revenue, they also require more investment in non-revenue generating infrastructure such as pipeline expansion and replacement and customer care systems and information technology. Intermountain Gas said the amount of capital plant in-service has grown in the past 30 years from $117 million to $600 million.

The commission approved a 7.3 percent rate of return and a 9.5 percent return on equity. The company originally sought 7.42 percent ROR and 9.9 percent ROE.

To determine a reasonable return on equity, the commission said it has a dual obligation to the utility and its customers. “To the utility, we must set rates at a level that will allow it the opportunity to recover its reasonable operating expenses while receiving a reasonable return on its prudent capital investment,” the commission said. “Satisfying our duty to the utility enables it to be financially sound and able to safely and reliably service its customers, thus addressing our obligation to customers.”

Other major issues addressed in the commission’s 46-page order:

Consolidation of rate classes, end of seasonal rates

The commission accepted Intermountain’s request to consolidate its two residential rate classes into one class and two industrial transportation classes into one class. (Transportation customers are those who procure their own supply of natural gas, but pay to lease a certain portion of Intermountain Gas’ distribution lines for natural gas delivery to their plants.)

The commission also accepted the company’s request to eliminate seasonal rates. Up until this case, residential customers were divided into one class that uses natural gas for space heating only and another class of customers that use natural gas for both space and water heating. Also, customers paid a higher commodity charge (but less in customer charges) in the months of April through November than they did in December through March.

Demand-side management programs

The commission adopted Intermountain Gas’ proposal to create demand side management (DSM) programs to help customers reduce natural gas consumption and, thus, decrease the amount of gas the company would have to buy from natural gas wholesale suppliers. The programs proposed by the company would award rebates to customers who use high-efficiency natural gas equipment.

Gas and electric utilities are sometimes reluctant to enact programs to help customers reduce consumption because they depend on sales to meet their fixed costs of operating. To address the financial disincentive to encourage conservation, Intermountain Gas proposed a Fixed Cost Collection Mechanism (FCCM) to ensure stability in revenues regardless of how much natural gas customers use.

But the commission rejected the company’s request to implement a yearly rate recovery mechanism from customers that would ensure recovery of Intermountain’s fixed costs of doing business when natural gas sales decline.

The commission said that while DSM is an “important element of promoting energy efficiency,” Intermountain’s proposed program was not yet robust enough to justify a fixed-cost recovery mechanism.

Demand charges for large volume, transportation customers

The commission adopted an Intermountain Gas proposal to implement a demand charge on top of the commodity charge for its large volume and transportation customers. But the charge it adopted – 20 cents per therm – is less than the 30 cents proposed by Intermountain.

Amalgamated Sugar, the company's largest customer, said the demand charge – a 48.5 percent increase – constitutes rate shock and that the commission should adopt a more gradual increase, especially in light of the commission staff's rejection of Intermountain's Cost of Service study, a study to determine the cost to the company to serve each of its customer classes.

However, the commission rejected Amalgamated's argument stating that a cost of service study, while not complete for other rate classes, does show the load data for large volume and transportation customers. The theory behind gradual increases to account for rate shock cannot be supplanted by actual cost causation, the commission said, when those costs are "known and measurable."

Amalgamated now accounts for nearly one-fourth of Intermountain's large-volume sales, up from 2010 when it was only 2 percent to 4 percent of sales. Amalgamated's combined 2016 annualized usage exceeds its 2009 usage by more than 1400 percent, according to Intermountain Gas.

Revenue and expense adjustments

The major areas in which the commission reduced Intermountain Gas' revenue requirement and expenses were as follows:

Weatherization calculation, $2 million reduction to revenue requirement. When a utility files a rate case, it bases its revenue and expenses on a "test year," which, in this case, was 2016. Weather normalization adjusts test year gas consumption to the level that would have been consumed in an average weather year.

Intermountain used the same weatherization calculation method the commission approved in 1986, when it filed its last rate case. Commission staff argued that the company's method underestimated its customers' monthly consumption. Intermountain stated the method it uses, a "Rolling 30-year Normal," is the industry standard.

The commission said it approved the 1986 method only because it was "arguably better than Intermountain's prior methods that we had rejected." Further, the commission said in 1986 that it would not determine whether the 1986 method was appropriate until the company filed its next general rate case. At the time, the commission said, it encouraged the company to "improve and refine its weather normalization methodology."

Even though Intermountain Gas has not a rate case since 1986, there was nothing preventing the company from proposing a weather normalization method outside a general rate case, the commission said.

Affiliate costs, $1.38 million reduction to revenue requirement. Affiliate costs are costs directly or indirectly charged to Intermountain by its affiliates. In this case, most of these costs were assessed by Intermountain’s parent company, MDU Resources. MDU provides services to Intermountain such as payroll, procurement, and enterprise and general and administrative services. Intermountain claimed affiliate costs of $15.55 million.

The commission said Intermountain did not meet the higher standard that utilities must meet when seeking recovery for costs assessed by its own affiliates. “A showing of costs is not enough to overcome the burden of proving reasonableness with regard to affiliates,” the commission said. However, the commission said some allocation is reasonable and adopted a five-year average of affiliate costs rather than single year 2016 test year costs, which reduced revenue requirement by $1.38 million.

Non-executive incentive compensation, $704,000. Intermountain Gas argued that the incentives awarded its employees should be included in rates because customers benefit when employees meet company incentives in the areas of cost control and customer satisfaction. However, the commission said the company failed “to make a showing that these expenses directly relate to improving service or reducing costs to Intermountain customers.”

Customer service center, $660,000. Intermountain Gas sought recover in rates of $1.9 million in costs that MDU allocated to Intermountain for use of MDU’s customer service center. Commission staff toured the facility and found that about one-third of building is currently not in use. The commission removed one-third of the building’s and land’s net book value and depreciation, reducing revenue requirement by about $660,000.

Intervenors in the case included commission staff, the Northwest Industrial Gas Users, Amalgamated Sugar, the Community Action Partnership Association of Idaho, Idaho Conservation League, Northwest Energy Coalition, Snake River Alliance and the Federal Executive Agencies.

The commission’s order and other documents related to the case can be found on the commission’s website at www.puc.idaho.gov. Under the “Natural Gas” heading, click on “Open Cases,” and scroll down to Case No. INT-G-16-02.

Interested parties may petition for reconsideration by no later than May 19. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted.

Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.