

# PUBLIC SERVICE COMMISSION OF MONTANA

11/01/18

Energy West Montana, Inc.

Tariff No. 05, Schedule GI, Sheet 01, Release 01

## GAS INFRASTRUCTURE RELIABILITY CLAUSE

### GENERAL DESCRIPTION

#### Purpose

To provide the Utility with the resources to accelerate the replacement of aging infrastructure as identified in Energy West Montana, Inc. (EWM)'s general rate case filed in D2017.9.80. To accomplish these tasks, the utility is permitted to recover the costs to replace Eligible Property, as defined below, when such Eligible Property is placed into service and recorded in the individual accounts, as referenced below.

To the extent that capital investment (as measured by original cost clearings to plant less GIRC related plant clearings) in a calendar year meets or exceeds the Utility's current year annual depreciation (excluding GIRC related depreciation), all GIRC Eligible Property costs from that calendar year will be included in the recovery determination. To the extent that capital investment falls short of annual depreciation, for purposes of determining revenue recovery, the investment in Eligible Property will be reduced by the shortfall for that calendar year to determine the quantity of GIRC-Eligible Property.

All costs of Eligible Property are subject to a review for whether its costs should be permanently included in the utility's rates when EWM next files a general rate case. The inclusion of such costs in a rate charged under this tariff shall not be evidence that the property is used and useful, or that associated expenses were prudently incurred.

***The costs of extending facilities to serve new customers are not recoverable through the GIRC.***

#### Eligible Property

Eligible Property Identified Through DIMP

- Approximately 42 miles of pre-1984 Aldyl-A pipe
- Mechanical couplings on approximately 11,000 steel services
- Couplings on the original, approximately 4.5 miles of 12" header main
- Other capitalized costs (labor, benefits, overheads)

The Eligible GIRC Property will be booked to the following FERC plant accounts where GIRC costs will be separately identifiable. Other capitalized costs such as labor charges, related benefits, and other appropriate overheads will also be booked to the appropriate FERC account and will be separately identified.

All GIRC costs must be tracked and accounted for separately from all other costs such that for any given calendar year GIRC costs are readily identifiable and trackable and shall be subject to audit by the Commission.

By: \_\_\_\_\_

AUTHORIZED AGENT OF ENERGY WEST MONTANA, INC.

Effective for services rendered on or after October 1, 2018

Administrative Assistant

Docket No.: D2017.9.80

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Vote: 5-0



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- **Account 376** - Mains and related parts and fittings such as couplings, valves, excess flow valves, risers, etc. booked to this account Piping (account 376);
- **Account 378** - Measuring and regulating equipment, insulated and non-insulated fittings;
- **Account 380** - Gas services lines and related parts and fittings;
- **Account 381** - Meters;
- **Account 382** - Meter Installations, meter bars, etc.;

### Commission Filings

EWM will file by November 1 of each calendar year its GIRC Plan for the following year. That plan shall detail all DIMP related projects and projected costs.

EWM will file its GIRC Cost Calculation filing by May 1 of each year to recover the GIRC costs from the previous calendar year. The GIRC Calculation filing will contain all information necessary to calculate the annual GIRC costs and a proposed rate design. The first Commission GIRC Plan filing will be due November 1, 2018 for calendar year 2019. The first GIRC Calculation filing will be made by May 1, 2020 for recovery of 2019 eligible GIRC costs. The monthly charge derived from the GIRC Calculation filing will be effective on the first billing cycle in September, beginning in 2020.

### COMPUTATION OF THE GIRC

**Determination of GIRC Revenue Requirement to be Recovered.** The revenue requirement recovery of the costs of GIRC eligible distribution system improvements projects will consist of a pre-tax return on the GIRC Eligible Net Plant plus depreciation.

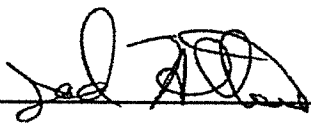
#### Formula:

The formula for calculation of the GIRC Revenue Requirement is as follows:

$$\text{GIRC} = (\text{NP} * \text{PTRR}) + \text{DEPR}$$

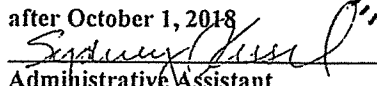
#### Where:

**Current Year** = Current Year is defined as the calendar year for which the GIRC Cost Calculation Filing is seeking recovery of GIRC costs. For example, for a filing made in May, 2020 to recover GIRC Costs for the year 2019, the Current Year is defined as 2019.

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**Net Plant (NP)**= NP shall be calculated by subtracting AD, EDIT, and Deferred Tax Benefits (2019 only) from GP as defined below.

**Gross Plant (GP)** = GP is the cumulative total of all previous calendar years original cost investment in GIRC Eligible Property, plus the 13-month average GIRC original cost investment for the current year.


**Accumulated Depreciation (AD)** = AD is the accumulated GIRC related depreciation as booked at the end of the current year.

**EDIT** - EDIT is the annual total credit due to customers to reflect the annual amortization of the Excess Deferred Income Tax balance resulting from the 2017 Tax Act and Jobs Cut. The EDIT deduction from GP will be booked as zero cost customer contributed capital and is cumulative.

**Deferred Tax Benefits**- For the GIRC Calculation to be filed in 2020 only, the EDIT amortization associated with year 2018 and the deferred tax benefits resulting from the change in statutory tax rate accrued from Jan. 1, 2018 until Sept. 30, 2018 will be applied as an offset against the GIRC GP investment of 2019, in addition to the application of EDIT associated with year 2019. The Deferred Tax Benefit deduction from GP will be treated as zero cost customer contributed capital for the five-year period 2019 through 2023.

**Pre-Tax Return Rate (PTRR)** = The pre-tax return shall be calculated using the statutory state and federal income tax rates, the Utility's capital structure and cost rates for long-term and short-term debt as reflected in the most recent base rate case. The cost of equity will be the equity return rate approved in the last base rate case for which a final order was entered. The pre-tax return for EWM, based on the 2017.9.80 approved capital structure and long and short-term debt costs and return on equity, is 8.75%.

**Depreciation Expenses (DEPR)** = DEPR related to GIRC-Eligible Property. Annual depreciation expense shall be calculated by applying the annual accrual rates employed in the Utility's most recent base rate case for the plant accounts in which each retirement unit of GIRC-Eligible Property is recorded to the original cost of GIRC-Eligible Property. DEPR equals the total amount of GIRC related depreciation expenses booked in the current year.

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**Rate of Return Recovery Limitation:** The GIRC surcharge will be subject to a review of the utility's overall rate of return as normalized for weather and filed in the Annual Report with the Commission on or before May 1. In any year where the reported rate of return exceeds the most recent authorized rate of return (defined as the overall allowed weighted cost of capital), a reduction will be made to the GIRC Revenue Requirement by the amount of incremental revenue that results in the over-earning rate of return portion. The GIRC will not be permitted to be negative, unless the surcharge would be set to zero either because of the Rate of Return Recovery Limitation or in a situation where GIRC has no incremental amount of capital spending because it is not in excess of depreciation, in which case the surcharge will be the negative value associated with the tax benefits due to be applied to GIRC's costs.

**Recovery of GIRC Program Revenue Requirement**

The GIRC approved revenue requirement will be recovered through a monthly customer charge. These charges will vary by customer class and will be based on the customer class allocation factors established in the current general rate case D2017.9.80. The GIRC surcharge will be separately disclosed on customers' monthly bills.

**GIRC Termination**

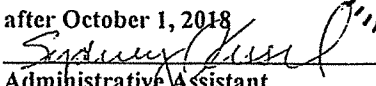
The GIRC surcharge automatically terminates if EWM files a rate case prior to Oct. 1, 2023. The GIRC charge automatically terminates on June 1, 2025. The GIRC surcharge automatically terminates if at any time EWM files an application pursuant to Mont. Code Ann. § 69-3-308 (state and local tax tracker). Costs associated with GIRC are recoverable through a rate case filing. If EWM desires to renew the GIRC program, it will request to do so in the general rate case filing.

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