

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE INVESTIGATION</b>	)	
<b>INTO THE PURCHASE GAS ADJUSTMENT</b>	)	<b>CASE NO. INT-G-01-1</b>
<b>(PGA) MECHANISM AND THE NATURAL GAS</b>	)	
<b>PURCHASING POLICIES OF</b>	)	
<b>INTERMOUNTAIN GAS COMPANY.</b>	)	<b>ORDER NO. 29199</b>
	)	

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In the year 2000, Intermountain Gas Company (Intermountain; Company) filed two Purchase Gas Adjustment (PGA) increases, resulting in a 60% increase in winter rates. While a PGA increase is not uncommon, two increases in less than a year are unusual and the total increase to customers was unprecedented. On February 7, 2001, the Commission issued a Notice of Investigation in Order No. 28632 directing Staff to investigate Intermountain Gas' PGA mechanism and purchasing policies. Staff's investigation found that the PGA should be maintained – a conclusion endorsed by Intermountain in its June 2001 Reply Comments. At its January 21, 2003 decision meeting, the Commission requested that the Company and Staff update their comments on this investigation.

In this Order, the Commission approves continued use of the PGA mechanism subject to Staff's recommendations. The Commission also directs Intermountain to: 1) timely notify its marketer, IGI Resources, that the Company will not extend the contract beyond March 31, 2004 and 2) solicit bids from qualified gas marketers, including IGI Resources, for comparable cost-effective services after that date.

**STAFF REPORT AND UPDATE**

Staff filed its Report on May 25, 2001 and determined that natural gas wholesale market prices skyrocketed for a variety of reasons that were largely beyond the Company's control. These reasons included three years of unseasonably warm weather, decreasing storage inventories, increased demand due to growth and greater reliance on natural gas for electric generation, increasing competition for Canadian natural gas, and a colder than normal 2000-2001 winter. Staff found that the high wholesale prices for natural gas in 2000 and 2001 were unexpected and unprecedented. Staff was also unable to find any material that predicted increases of that magnitude.

Staff further found that the Company has since taken steps to minimize the volatility of gas prices to customers. To its credit, Intermountain Gas provides a diverse gas portfolio with purchases from all available supply basins. The Company has taken advantage of capacity releases and off-system sales. It also has an extensive amount of storage to take advantage of seasonal differences between summer and winter gas prices.

After reviewing other possible gas purchase mechanisms, Staff continued to believe that the existing PGA mechanism is the best system to ensure customers pay the lowest price for the natural gas commodity. The mechanism is readily auditable, provides no perceived regulatory disincentives, sends the correct price signal to customers, allows the Commission the flexibility to determine the price to customers, and assures customers that they will pay no more than the Company pays for the procurement of natural gas. In light of changes that have occurred in the natural gas industry in recent years, Staff believed it more important than ever for the Commission and the Company to communicate and document Company activities. Staff argued that increased information sharing was necessary to assure customers that the Company is using all available expertise to optimally minimize natural gas procurement costs.

In January 2003 Staff updated its seven original (underlined) recommendations as follows:

**Recommendation #1:** Maintain the existing purchase gas cost adjustment mechanism. Staff continued to recommend that the current purchase gas cost adjustment mechanism be used.

**Recommendation #2:** Improve documentation and increase communication between the Company, the Commission, and Staff. Intermountain Gas maintained all the items specified by Staff for review. In the past year improved communication enabled Staff and the Company to uncover “questionable capacity release activity” by the Company’s current marketer, IGI Resources. Staff believes the issues are resolved on a going-forward basis but will continue to monitor the situation.

**Recommendation #3:** Staff will also review the initial documentation retained in the next several months to informally discuss the process and make additional recommendations for the Company to consider. Staff reviewed the documentation retained by the Company during the last two PGA periods and noted that the Company worked well with Staff to improve the Company’s documentation of purchase decisions.

**Recommendation #4:** The Company should document and report all new contracting arrangements and initiate a bidding process for new gas contracts as existing contracts expire. Staff indicated that the Company has documented and reported all its new gas purchase agreements, which were awarded to the lowest bidder meeting certain requirements. The Company also kept the documents used to select a provider.

**Recommendation #5:** The Company should be directed to file its required Integrated Resource Plan immediately and provide additional annual updates in addition to the required biannual filing. Staff indicated that the Company filed its 2002 Natural Gas Integrated Resource Plan on April 19, 2002, which the Commission later accepted for filing.

**Recommendation #6:** The Company should be directed to provide to Staff: 1) a complete statement of qualifications for IGI Resources; 2) a complete list of the services that IGI Resources provides to Intermountain Gas Company; 3) a complete list of other available services offered by IGI Resources not currently utilized by Intermountain Gas Company; and 4) a complete list of services and qualifications the Company finds necessary in a marketing service provider. According to Staff, the three-year term of the Procurement, Asset Management and Administrative Service Agreement between IGI Resources and Intermountain Gas will be completed on March 31, 2003. Even though the contract includes annual extension language and a 12-month termination notification requirement, Staff believes that completion of the 3-year primary contract provides the Company with a realistic opportunity to evaluate other marketers. While the Company provided some of the requested information in the past, Staff indicated that the Company should update this information plus add any other information from IGI or its competitors that the Company will use to evaluate contract renewal options.

**Recommendation #7:** The Company should investigate all conservation opportunities and develop cost-effective programs that could be offered to customers. A deadline should be set prior to the 2001-2002 heating season to institute demand side management programs that will offer cost-effective measures to all customer classes. Because natural gas prices have declined considerably since the initiation of the investigation, Staff noted that the cost/benefit considerations have changed significantly. While Staff recognized that cost-effective opportunities will be more difficult to identify, Staff encouraged the Company to diligently investigate conservation opportunities and report its findings in the ongoing IRP process.

## **INTERMOUNTAIN'S REPLY AND UPDATE**

On June 1, 2001, Intermountain filed a reply to Staff's initial report indicating that the Company concurred with Staff's finding that the PGA should be maintained. Intermountain further agreed to consult with Staff to provide the level of documentation necessary to assist Staff in reviewing the Company's ongoing gas purchasing decisions. The Company also stated that it would continue documenting all new contracting arrangements and bid new gas contracts as existing contracts expire.

On February 5, 2003, Intermountain responded to Staff's updated report. The Company continued to support use of the PGA mechanism as an efficient tool in managing the natural gas cost component of our customers' rates. Intermountain restated its commitment to continue documenting and maintaining its natural gas purchasing policies and practices for Staff. Noting that measures promoting the efficient use of natural gas for Intermountain's residential, commercial and industrial customers were included in its 2002 Natural Gas Integrated Resource Plan, the Company stated that it will continue to endorse and encourage wise and efficient energy use.

## **COMMISSION FINDINGS**

The Commission has reviewed and considered the filings of record in Case No. INT-G-01-1, including the report filed by Commission Staff and the reply comments of Intermountain Gas. The Commission also reviewed the updated documents submitted by these parties.

We continue to find it reasonable to process this case pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Commission Rules of Procedure, IDAPA 31.01.01.201-204.

In its PGA investigation report, Staff made seven recommendations for our consideration. We commend the Company for working with Staff and providing documents to address their concerns. We find Staff's seven recommended changes will improve the Commission's ability to monitor the PGA mechanism and Intermountain's purchasing activities for the benefit of ratepayers. The Company did not object to these recommendations and thus tacitly appears to accept them. Consequently, we direct the Company to implement Staff's recommendations if it is not already doing so. With the implementation of these changes, we

find it reasonable to continue use of the PGA mechanism to pass purchased gas costs through to customers.

With the completion of the initial three-year term of the Intermountain-IGI Resources gas marketing agreement next month, we agree with Staff that this is an opportune time to evaluate the qualifications and cost savings offered by other marketers. As a public utility, Intermountain has the responsibility to keep the rates charged for the services it provides “just and reasonable.” *Idaho Code* § 61-301. This responsibility includes providing or otherwise engaging quality, cost-effective marketing services for the benefit of the ratepayers who will ultimately fund these necessary activities. Given that several years have passed since Intermountain entered into this contract, we find it reasonable for Intermountain to assess all qualified gas marketers to ensure that its ratepayers are receiving the best services and prices currently available. The Commission also finds the “questionable capacity release activity” referred to in Staff’s update does not inspire confidence in IGI’s ability to maximize capacity release revenue and minimize purchase costs for ratepayer benefit.

Intermountain’s marketing contract with IGI will renew annually unless notice to the contrary is given a year in advance. Thus, the Commission also directs Intermountain to: 1) timely notify its marketer, IGI Resources, that the Company will not extend the contract beyond March 31, 2004 and 2) solicit bids from qualified gas marketers, including IGI Resources, for comparable cost-effective services after that date. We further direct Intermountain to submit a report detailing the qualifications, services offered, and remuneration required by the bidding parties.

### **CONCLUSIONS OF LAW**

The Idaho Public Utilities Commission has jurisdiction over this matter and Intermountain Gas Company, a 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.*

### **ORDER**

IT IS HEREBY ORDERED that Intermountain Gas continue to use the Purchase Gas Adjustment mechanism with Staff’s recommended changes.

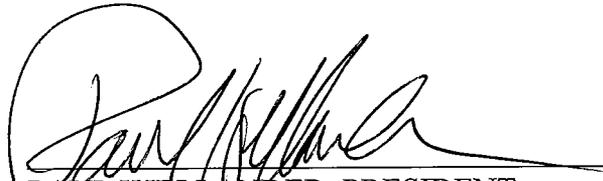
IT IS FURTHER ORDERED that the Company should file and/or update the following with the Commission: 1) a complete statement of qualifications for IGI Resources; 2)

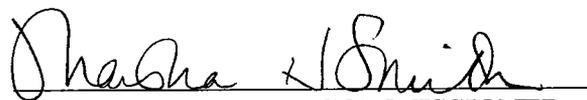
a complete list of the services that IGI Resources provides to Intermountain Gas Company; 3) a complete list of other available services offered by IGI Resources not currently utilized by Intermountain Gas Company; 4) a complete list of services and qualifications the Company finds necessary in a marketing service provider; and 5) any other information from IGI or its competitors that the Company will use to evaluate marketing contract options.

IT IS FURTHER ORDERED that Intermountain timely notify IGI Resources that the Company will not extend the contract beyond March 31, 2004 and solicit bids from qualified gas marketers, including IGI Resources, for comparable cost-effective services after that date. We further direct Intermountain to submit a report detailing the qualifications, services offered, and remuneration required by the bidding parties.

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.

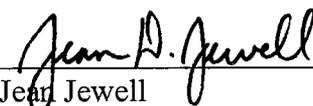
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21<sup>st</sup> day of February 2003.

  
PAUL KJELLANDER, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
Jean Jewell  
Commission Secretary

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