Office of the Secretary
Service Date
June 30, 2003

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO INCREASE ITS RATES FOR SERVICE	**CASE NO. INT-G-03-1** **ORDER NO. 29277**

On May 7, 2003, Intermountain Gas Company (IGC; Company) filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to implement new rate schedules that would result in an overall increase of approximately $61 million (37.76%) in revenues. The Company requested an effective date of July 1, 2003 for its proposed rate schedules. On May 28, June 4 and 5, 2003, the Commission convened public workshops and hearings in Boise, Idaho Falls and Twin Falls. The Commission also received written comments from the public, Advanced Energy Strategies, Inc., the Commission Staff and the Company. After reviewing the record in this case, the Commission partially grants and partially denies the Application as set out in greater detail below.

BACKGROUND

A. Procedural History

On May 7, 2003, Intermountain Gas filed its annual PGA Application requesting authority, pursuant to *Idaho Code* §§ 61-307 and 61-622, to increase its net revenue and customer rates by approximately $61 million. The PGA account is a deferral mechanism for over- and under-collections and for realized savings on spot market gas purchases. On May 14, 2003, the Commission issued a combined Notice of Application, Notice of Public Workshops and Hearings, Notice of Modified Procedure and Notice of Comment Deadline. Order No. 29242. Pursuant to this Notice the Commission convened three public workshops and hearings in IGC's service area. The Commission also required the Commission Staff, intervenors and members of the public to file written comments on the Company's Application on or before June 13, 2003. Order No. 29242 at 5. Further, the Commission required the Company to file any reply comments on or before June 17, 2003. On May 30, 2003, the Commission granted Jeffrey C. Brooks dba Advanced Energy Strategies, Inc.'s (AES) Petition to Intervene. Order No. 29249.

B. The Application

IGC seeks to pass through to each of its customer classes the change in gas related costs resulting from: (1) changes in IGC's firm transportation and storage costs resulting from the Company's management of its storage and firm capacity rights on pipeline systems including the Williams Northwest Pipeline (Williams); (2) an increase in IGC's Weighted Average Cost of Gas (WACOG); (3) an updated customer allocation of gas related costs pursuant to the Company's purchased gas cost adjustment provision; and (4) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from the Company's deferred gas account. Application at 3-4. IGC also seeks to eliminate the temporary surcharges and credits included in its current prices during the past 12 months, pursuant to Case No. INT-G-02-3.[1] The aforementioned changes will result in an overall price increase to IGC's residential, general services and large volume customers and a decrease to the Company's transportation customers. The Company states that its earnings will not be increased as a result of the proposed changes in prices and revenues.

The Company proposes to implement the following permanent adjustments and temporary surcharges to its tariff rates for natural gas service and sales:

Permanent Adjustments:

• Elimination of Surcharges and Credits from INT-G-02-3	$10,163,440
• WACOG Adjustment	$47,034,183

Temporary Surcharges and Credits:

• Fixed Cost Collection Adjustment	$2,217,435
• Uncollected Gas Costs in Account 186	$4,427,982
• Market Segmentation	($2,366,437)
• Miscellaneous Gas Costs & True Ups	($504,575)

The total incremental revenue requested by IGC during the 2003-2004 PGA period is $60,972,028 or a 37.76% increase. The following tables represent IGC's proposed changes in rates per customer class.

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[1] In Case No. INT-G-02-3, the Commission authorized certain surcharges and credits to be recovered from and returned to customers over a period of one year. *See* Order No. 29068. These surcharges and credits were made up of over-collected gas costs, changes in the fixed cost collection allocations and other miscellaneous gas items.

Customer Class	Revenue	Proposed Average Increase $/Therm	Proposed Average Increase % Change	Proposed Average Price $/Therm
RS-1 Residential	33,384,066	0.23826	33.44%	0.95075
RS-2 Residential	108,992,880	0.23129	37.90%	0.84164
GS-1 General Service	74,025,514	0.23886	42.49%	0.80100
LV-1 Large Volume*	2,089,088	0.22058	53.91%	0.62976

*T-1 Tariff price plus the Weighted Average Cost of Gas (WACOG) $0.50305 per therm
WACOG = total commodity cost of gas / total purchase therms

Transportation	Revenue	Proposed Average Increase $/Therm	Proposed Average Increase % Change	Proposed Average Price $/Therm
T-1 Transportation	3,338,014	(0.00421)	-4.22%	0.09554
T-2 Transportation	602,291	(0.00024)	-0.89%	0.02672

IGC proposes to allocate the change in rates to each of its customer classes in accordance with its Purchased Gas Cost Adjustment tariff and approved cost-of-service methodology.[2]

IGC asserts that the WACOG reflected in its proposed prices is $0.50305 per therm compared to $0.32000 per therm currently included in the Company's tariffs. IGC contends that setting its WACOG at this level is consistent with forward prices available through the use of financial derivatives as of May 5, 2003. *See e.g.,* Exhibit No. 5. However, the Company's Application also stated:

> As was again played out in the marketplace over the last several months, high natural gas prices indicative of weakening supplies have spurred on additional exploration and production and, as natural gas supplies become more plentiful, market prices should decline. . . . Intermountain believes that current futures prices, subject to the laws of supply and demand, are poised for further softening.

Application at 5. Thus, the Company represents that it will remain vigilant in monitoring natural gas prices and is committed to come before the Commission prior to this winter's heating season with an Application to further amend these proposed prices, should they materially deviate from the $0.50305 per therm.

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[2] *See* Case Nos. INT-G-95-1, INT-G-88-2 and U-1034-137.

To inform its customers of its proposal to increase rates, IGC issued customer notices and a press release. The Notices were distributed by bill stuffers mailed with cyclical billings beginning May 7, 2003 and ending June 4, 2003. The Company's press release was sent to daily and weekly newspapers, major radio stations and television stations in IGC's service area.

In conclusion, IGC contends that the proposed overall price change requested among the classes of service of the Company will not affect its earnings and is just fair and equitable.

THE PUBLIC WORKSHOPS AND HEARINGS

The first of three scheduled workshops and hearings was held in Boise on May 28, 2003 in the Commission's Hearing Room. One Intermountain Gas customer attended the workshop. No customers testified at the hearing. Additional workshops and hearings were held on June 4, in Idaho Falls and June 5, in Twin Falls. Two customers attended the Idaho Falls workshop. At the hearing in Idaho Falls, Mike Huntington, Vice President of Marketing and External Affairs for IGC, read a statement into the record regarding the Company's Application. Tr. at pp. 8-10. In addition, one customer testified at the hearing. This customer testified that in general he favored price stability that may come with the Commission granting the Company's Application. *See* Tr at pp.12-17. However, he also testified that the Commission and IGC should do everything possible to limit the economic impacts that granting the Company's Application may cause. *Id.* In Twin Falls, no customers were in attendance at either the workshop or hearing. Television and newspapers covered all three meetings and hearings.

WRITTEN COMMENTS

A. Public Comments

The Commission has received written comments from about 193 customers. None favored the Commission authorizing the proposed rate increase. Two of the respondents stated that if such an increase were warranted, only part of the increase should be granted. They further recommended that the Commission review wholesale gas prices in six months and if they have not declined, order further rate increases. One customer, a farmer, said that $8,600 in additional unbudgeted costs that he would incur as a result of one rate case increase "will cut in a very thin margin, possibly into a loss situation." Another commenter stated that IGC should work on demand response programs including real-time pricing and response capability to create a partnership between the Company and its customers to manage the impacts of natural gas market volatility. Another customer strongly urged the Commission to require IGC to "embark on some substantial efficiency and conversation efforts to prevent the drastic effects price increases will have on Intermountain Gas customers in the future. . . . Failure to do this is shortsighted and hurtful to the people of Idaho." Finally, several commenters noted that rather than tightening their belts further to deal with this proposed rate increase IGC should shoulder some of the burden in these tough economic times. We share customer concerns that IGC may not be tightening its belt enough to reduce operating costs. Accordingly, the Commission assures ratepayers that it will remain vigilant in monitoring the Company's operations to ensure they are cost-effective and efficient.

B. Advanced Energy Strategies, Inc.

Intervenor, Advanced Energy Strategies, Inc. (AES) filed written comments on June 13, 2003. AES asserts that IGC has done very little to proactively mitigate the effects that rising natural gas costs have on its customers. AES contends this inaction is a business strategy employed by IGC to purposely facilitate a rise in retail gas rates in order to increase incremental revenues from captive customers. Furthermore, AES asserts IGC operates its facilities and has marketing practices that provide a maximum benefit to the Company's owners at the expense of residential and small commercial ratepayers who do not qualify for participation in transport gas rate schedules. Specifically, AES raises concerns regarding three broad topics. First, AES believes that IGC purchases and fills its storage facilities in Nampa, Idaho with relatively low cost gas then sells it to customers at a new, higher retail price. AES posits that it is unclear whether this additional revenue is flowed through to ratepayers.

Second, AES alleged IGC's promotion of energy efficiency programs does not result in significant, measurable or quantifiable gas savings that might help to mitigate the impacts of aggregate consumption in the national market. Thus, AES suggested the Commission review IGC's current conservation practices and consider whether additional programs and measures are warranted.

Lastly, AES contended it is possible that as the Company's gas costs rise so will its profits. AES stated that this may not be the appropriate proceeding to consider IGC's approved rate of return, but feels the Company's "internal hurdle rate of 12.5% represents an enviable investment opportunity available to only a very few over the past three years."

In conclusion, AES contends that it has raised valid issues that can be used to more closely examine IGC's practices.

C. Staff Comments

1. Staff Audit

Staff conducted a detailed audit of the Company's gas costs incurred in the PGA period under review. Staff verified IGC's profits would not increase if the Commission granted the Company's Application. In addition, Staff states that it is currently conducting a comprehensive financial audit of IGC. Based on preliminary figures, Staff calculated the Company had a net income of $4.2 million for the year ending September 2002. During the same period, the Company earned 5.314% on its common equity.[3]

During its audit Staff found that the Company took several actions to reduce the price of gas for its customers. First, it sold a large portion of its Sumas gas, then purchased a similar quantity of Rockies gas at a lower price. This resulted in reduced purchased gas costs. Second, Staff found that in 2002, the Company executed financial transactions to fix the price for a portion of gas purchased for customers to protect them from significant upward swings in the price of gas on the wholesale market. Third, Staff noted the Company now continues to actively search for opportunities to market its extra pipeline capacity to maximize revenue. Staff found that since last summer IGC's intermediary, IGI, has consistently bid out the Company's extra capacity appropriately or purchased the capacity itself at the highest rate allowed.[4] Fourth, Staff found IGI had issued three requests for proposals to meet IGC's short-term gas supply needs that have largely been cost-effective. Fifth, for the month of March 2002, Staff noted the Company sold all of its gas priced at the first-of-the-month index and repurchased gas on the daily market. This strategy proved effective as prices fell from the first-of-month highs to lower levels. Sixth, the Company did not renew a storage contract for some of its Canadian gas because the supplier wanted a significantly higher price for that storage capacity. IGC's analysis showed it would be cheaper to purchase the gas during the winter than to pay significantly more for storage. Even though this appears to have been the best economic decision at the time, Staff pointed out that it did not secure the price of gas through the winter and prices have increased significantly since the decision was made. Finally, Staff found, as required by Commission Order No. 29199, IGC

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[3] Staff reported the Company earned 5.897% for the year ending September 2002 when normalized revenues are considered.

[4] IGI Resources is a wholesale gas marketer that performs gas procurement and management services for IGC. At one time, IGI was affiliated with IGC. However, it was sold to BP Energy in 2000 by IGC's parent company, Intermountain Industries.

solicited proposals from several gas marketers to find the most reliable and inexpensive management partner.

In its audit Staff found no inconsistencies or irregularities that would cause it to recommend adjustments to the Company's proposal to recover deferred costs and temporary and permanent surcharges and credits through its PGA. However, Staff encouraged the Company to continue to use all reasonable transactions and strategies to reduce the price of gas for customers. Based on the foregoing, Staff recommended approval of all the temporary credits and surcharges proposed by the Company including the $4.4 million in uncollected gas costs and the $10.2 million increase due to the removal of the surcharges and credits from the last PGA case.

2. WACOG

Staff noted that the majority of the rate increase the Company is requesting is due to a proposed increase in its WACOG. Staff reviewed IGC's transportation and gas procurement contracts, the Company's gas price forecast, and national market price trends. Based on these factors, Staff found that there have been significant increases in the demand for natural gas coupled with market volatility and higher prices for the commodity. Thus, Staff found the Company's proposed WACOG reasonable given the current market conditions. However, Staff also contended that setting the WACOG lower than proposed was not necessarily unreasonable particularly if gas prices for the 2004-2005 PGA cycle are expected to be approximately $0.45 per therm.

In conclusion, Staff recommended approval of the Company's proposed WACOG. Staff also recommended that the Commission require IGC to continue to file its quarterly WACOG reports for the current gas year and to also file WACOG reports for the projected 2004-2005 gas year to allow Staff and the Commission to follow the same data and results the Company should be monitoring.

3. Risk Management and Price Stability

Staff reviewed the Company's Risk Management Committee's minutes and other documented activities. Staff found that the Company has greatly improved documentation of risk management activities. However, Staff noted that customers' rates clearly remain unprotected from annual market volatility and questioned the overall effectiveness of these activities. For example, RS-2 customers are still being asked for a 38% increase in rates. In fact, RS-2 gas costs will go up 57% over the last PGA cycle.

Staff reported that in the 2002 PGA, the Company requested to keep the WACOG higher than its market forecasts to create a credit deferral for customers within the PGA. *See* Order No. 29068 at 2. In May 2002, the Company presented both a 2002-2003 WACOG estimate of $.32 per therm and a 2003-2004 WACOG estimate of approximately $.35 per therm. The Company's 2002-2003 WACOG turned out to be a very accurate. This accuracy was improved considerably by a significant amount of financial hedging that secured the 2002-2003 gas prices. Unfortunately for customers, Staff noted that the Company did not secure the forward prices for the 2003-2004 WACOG in 2002. Staff questioned why 2003-2004 hedges were not secured. The Company replied "the obligation of the Gas Management Committee is not to project what prices will do nor is it the Committee's objective to 'beat' a projected WACOG, but rather to ensure IGC's gas supplies are purchased at a prudent price level."[5] Staff did not disagree with this practice; however, it believes the Company should add an additional element to its risk management activities that involves consideration for customer rate stability.

While Staff asserted that it continued to agree with its 2002 comments and the Commission's decision not to artificially increase rates to build customer deferral reserves, it stated that methodologies exist that could provide a more disciplined approach to minimize price volatility for the Company's gas customers. Accordingly, Staff recommended that IGC be required to file a more formal risk management policy with the Commission within 90 days. Staff recommended that the Commission direct the Company to place special emphasis in this filing on managing reliability, price, service quality, credit risk and customer rate volatility. Staff also stated that the formal policy should include trigger points or volatility limits that could be used to make hedging decisions or forward market purchases. Staff also believed that after the initial filing, this formal policy could easily be incorporated into the Company's biannual Integrated Resource Planning (IRP).

4. Long-Term Gas Purchases

Staff also voiced concerns related to the Company's recent decision not to seek formal proposals to meet its long-term gas needs. The Company responded that long-term suppliers and producers are not responding to formal proposals any longer. Staff was not able to ascertain the validity or reasonableness of this position because there have been no formal proposals for Staff to review. Staff believes it is reasonable to ask the Company to perform at

[5] Intermountain Gas response to Staff audit requests dated May 20, 2003.

least the same level of due diligence for long-term contracts as it does when it looks for short-term arrangements. Staff contended that factors of reliability and credit worthiness should be a part of the formal process documentation for long-term as well as short-term contracts. Thus, Staff recommended that the Company perform a formal Request for Proposals with closed bids submitted to IGC for independent evaluation when searching out new long-term supply and transportation arrangements.

5. Demand Side Management

Staff encouraged the Company to continue its current programs, mass media and Website activities to promote the efficient use of natural gas. These media activities provide all customers with valuable conservation information and provide individuals with ways to reduce their own monthly energy bills. Staff also noted that in years past, natural gas demand side management (DSM) was not cost effective until 2000-2001 when natural gas prices rose dramatically. Staff alleged that prices are again reaching those levels. Thus, Staff also recommended that the Company continue to explore new DSM opportunities for its customers.

6. Customer Service

Based on past experience with increases in rates, Staff estimated that complaints and inquiries regarding Intermountain Gas will increase significantly in 2003-2004 if a rate increase is granted. Similarly, IGC will see an increase in the number of customers that contact the Company directly. During the 2001-2002 heating season, customers had a difficult time getting through on the Company's Customer Service telephone line. Staff's review of IGC's Service Levels and Abandoned Telephone Call data confirms this problem. Thus, Staff is concerned about the Company's ability to handle an increased volume of incoming telephone traffic that might be expected following a major rate increase.

Staff noted that IGC claimed to have taken steps this year that will allow the Company to handle the additional incoming calls resulting from a price increase as proposed here. Since 2002, three additional full-time customer service representatives have been hired and two full-time, temporary positions were created. Also, three representatives in outlying local offices have been identified as remote agents who can step in and answer calls during peak calling times if needed. Customers can also communicate with the Company through the IGC Website at www.intgas.com. IGC claimed their e-mail response time is within 24 hours.

Staff also suggested the Company use a facsimile machine to receive complaints and inquiries from customers who are unable to reach IGC by telephone during peak times. For instance a recorded message could be played while customers are waiting on hold giving them the option of sending a fax.

Consumer Assistance Staff recommended the Company offer an additional Level Pay promotion in September of this year. A Level Pay promotion just before the winter would encourage customers to sign-up for Level Pay in the fall, thereby averaging their projected higher usage winter bills over a longer period of time. Staff believed this would help address approximately one-third of the written comments from customers on fixed incomes who worried that they could not afford a 38% increase in winter heating costs.

D. Intermountain Gas's Reply Comments

First, the Company stated that it will continue to seek both formal and informal proposals for gas supplies and will continue to document its efforts. However, the Company reiterated that no long term producer or supplier who sells to IGC is willing to directly negotiate a fixed price. Thus, the Company contended formal proposals are not feasible. In addition, the Company stated that it continues to ensure that its supplies are aligned with secure, reliable, reputable and creditworthy producers and suppliers who it is comfortable will always provide firm, uninterrupted gas supply for its core market needs. The Company also alleged that the ability of its long-term suppliers to meet the benchmarks for creditworthiness and ability to deliver firm, uninterrrupted supplies have all been established in the market and, thus, need not be tested through a formal RFP process. The Company also stated that it will continue to file its quarterly WACOG reports for the current gas year and can also begin filing WACOG projections for the subsequent gas year as well.

The Company also stated that it has a formal Gas Management Risk Management Policy and will continue to review and discuss gas management strategies that incorporate Staff's recommendations. Reply Comments. However, the Company stated because it is a Policy and not a Procedure Manual, it needs to be flexible while still providing general direction. IGC asserted that within 90 days it is willing to make documentation available to Staff regarding these strategy reviews and their outcome as it pertains to any action taken by the Company.

The Company also stated that it will utilize a facsimile machine to receive customer inquiries beginning within the next several weeks. Finally, IGC also stated that it will perform a September Level Pay promotion.

In response to AES's comments, IGC alleged its assertions wrongly speculate that the Company engaged in questionable activities. IGC asserted, that contrary to AES's comments, it is not profiting by a rise in retail natural gas prices. It contends this is shown by the Company's practices and documented findings by the Commission Staff. The Company also alleged, that contrary to AES's comments, it promotes several avenues for the efficient use of natural gas as described by its Integrated Resource Plan. Finally, IGC asserted that its profit margin would not rise due to any Commission authorized increase in its WACOG.

E. AES Rebuttal Comments

On June 19, 2003, AES submitted additional comments supporting its written comments and attempting to rebut the Company's assertions regarding its conservation efforts and practices.

The Commission notes that the Staff audit addressed many of the concerns raised in the comments of AES. Staff's audit verified that the Company's earnings would not increase by the pass through of purchased gas costs. Staff's audit also did not reveal any evidence that supported AES's allegation that the Company has certain practices its uses to generate profits at the expense of its customers. Furthermore, the record demonstrates in this case that the Company has taken some measures to reduce the price of gas it purchases for its customers.

COMMISSION DISCUSSION AND FINDINGS

A. Jurisdiction

IGC is a gas utility, that is engaged in the sale of and distribution of natural gas within the State of Idaho. *See Idaho Code* §§ 61-117 and 61-129. Thus, the Commission has jurisdiction over this matter and IGC, 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*.

B. WACOG and Temporary and Permanent Credits and Surcharges.

According to Idaho law, utilities cannot increase their rates for service without a finding by the Commission that the increase is justified. *Idaho Code* § 61-622. Based on the record, we find that gas prices have dramatically increased and the gas rates previously authorized in Order No. 29068 are not adequate to compensate IGC for the prices it pays its gas suppliers. Consequently, we find the previously authorized rates to no longer be "just and reasonable" as required by *Idaho Code* § 61-502.

In setting the Company's WACOG level the Commission weighed the Company's interests against the burdens that will be incurred by consumers due to a large increase in rates. Based on the public comments, it is clear that a significant rate increase will be a hardship to many IGC customers, particularly to those on fixed and/or low incomes. However, the Commission must also consider the impact of market volatility and high prices for natural gas on IGC as well as a potentially large deferral balance that could be generated if the Company's WACOG is set too low. Setting the WACOG at the level that best reflects what is expected to occur in future remains the best course of action in this PGA. The Company states that its proposed WACOG of $0.50305 is reasonable. *See e.g.*, Exhibit No. 5, Total North American Rig Count and November 03 – March 04 Strip Prices for AECO, Sumas and Rockies' gas, pp. 1-4. However, the Company stated that:

> Natural gas prices charged by Canadian and domestic producers and suppliers have risen considerably across the nation over the past several months. With the recent rise in wellhead prices, the number of drilling rigs has increased. Therefore, the Company believes that the wellhead price for natural gas will ultimately decline as a result of recent increases in drilling and production.

Tr. at p. 9, ll. 2-10. *See also* Application at 5.

Since the Company's Application was filed, we note that gas prices have declined about $0.02 per therm through October comparing prices in the Wall Street Journal from May 9 and June 27, 2003. Wall St. J., at p. C12, May 9, 2003; Wall St. J., at p. C10, June 27, 2003. In addition, the publication "Natural Gas Week" June 2003 (p. 13) shows rig counts continuing to increase. These changes may prove to support IGC's statement.

The Commission authorizes an increase in the WACOG. Based primarily upon the Company's belief that prices will ultimately decline and secondarily on natural gas futures prices and drilling data, the Commission finds it reasonable to authorize IGC to increase its WACOG from its current level of $0.32 per therm to $0.475 per therm. Although this WACOG is not as large as the Company requested, we find that it is just and reasonable considering the interests of ratepayers and the Company. Furthermore, by setting the WACOG at this level the Commission is not disallowing the recovery of legitimate expenses. Rather, should the forward prices substantially deviate up or down from $0.475 per therm any difference will be deferred for later review and possible recovery consistent with the Company's PGA mechanism. In addition, should forward prices substantially deviate from $0.475 per therm prior to the winter heating season, the Company is instructed to come before the Commission with an Application to request that the rates be further adjusted.

The Commission also finds that the Company shall continue to file its quarterly WACOG reports for the current gas year and begin filing WACOG projections for the subsequent gas year.

IGC requests that the Commission authorize it to recover temporary and permanent surcharges and credits through its PGA by eliminating them from its current prices during the past 12 months, pursuant to Case No. INT-G-02-3. Based on Staff's recommendation and the record, the Commission finds that there are no inconsistencies or irregularities that require adjustments to these amounts. Thus, the Commission finds these amounts to have been prudently incurred. The Commission authorizes IGC to recover all of these temporary credits and surcharges including the $4.4 million in uncollected gas costs and the $10.2 million increase due to the removal of the surcharges and credits from the last PGA case.

IGC is thus authorized to increase its incremental revenue by $53,669,276 or a 33.24% increase for the 2003-2004 PGA period. The following tables represent the Commission authorized changes in rates per customer class.

Customer Class		Revenue	Average Increase $/Therm	Average Increase % Change	Average Price $/Therm
RS-1 Residential	$	32,399,135	0.21021	29.50%	0.9227
RS-2 Residential	$	105,360,388	0.20324	33.30%	0.81359
GS-1 General Service	$	71,433,235	0.21081	37.50%	0.77295
LV-1 Large Volume*	$	1,996,038	0.19253	47.05%	0.60171

*T-1 Tariff prices plus the WACOG of $0.475 per therm

Transportation		Revenue	Average Increase $/Therm	Average Increase % Change	Average Price $/Therm
T-1 Transportation	$	3,338,014	(0.00421)	-4.22%	0.09554
T-2 Transportation	$	602,291	(0.00024)	-0.89%	0.02672

IGC shall allocate the change in rates to each of its customer classes in accordance with its Purchased Gas Cost Adjustment tariff, to be updated and filed on or before July 1, 2003, and its approved cost-of-service methodology.[6]

C. Risk Management Policy

In light of the large rate increase authorized by this Order and the market volatility that persists in the natural gas market, the Commission finds it appropriate to investigate and understand IGC's Risk Management Policy. While the costs (and ultimately the increased rates) authorized by this Order are supported as just and reasonable, we question why some prices were not locked in to hedge against the current market volatility, particularly in light of the Company's position in the previous year's PGA case. In that case (INT-G-02-3), the Company requested that the Commission authorize its WACOG at a level that would allow it to over-collect what it predicted would be gas related costs incurred from July 2002 until July 2003. Order No. 28578 at 1, 3-4. The Company proposed this over-collection believing that prices for gas were trending upward for future PGA periods. *Id.* The Company believed that "by allowing the WACOG to remain at the $0.35295 per therm level, a future price increase can be avoided or mitigated during the July 2003 PGA period (one year from now) by offsetting future increases with savings generated by Intermountain's currently hedged supplies." *Id.*

Thus, because of uncertainty as to the Company's policy and the inconsistencies described above, the Commission directs IGC to prepare and file a formal written Risk Management Policy with the Commission within ninety (90) days from issuance of this Order. The Commission directs the Company to place special emphasis in this filing on managing reliability, price, service quality, credit risk and customer rate volatility. This formal policy should also include trigger points or volatility limits that could be used to make hedging decisions or forward market purchases. In addition to this requirement, the Commission also strongly encourages the Company to continue to increase its documentation regarding its purchases and other decisions.

To facilitate continued review of and support for the Company's actions, IGC shall continue to record and retain copies of information used to make important decisions regarding

[6] *See* Case Nos. INT-G-95-1, INT-G-88-2 and U-1034-137.

the purchase of gas and financial transactions. Thus, the Company shall continue to file monthly summaries of its purchased gas transactions and related deferred balances with the Commission.

D. Proposals for Long-Term Gas Supplies

IGC alleges that no long-term producer or supplier is willing to directly negotiate a fixed price. While this may be true, we find there is justifiable concern that price does not seem to be adequately addressed in documenting the long-term gas proposal process or the risk management policy and strategy. Thus, we direct IGC to include long-term supply issues in the formal Risk Management Policy it files with the Commission. The Commission also encourages IGC and interested parties to meet to discuss concerns and potential alternatives related to long-term supply and risk management.

E. Demand-Side Management

The Commission encourages IGC to not only continue but to improve its current programs, mass media and website activities to promote the efficient use of natural gas especially following this large rate increase. These media activities provide all customers with valuable conservation information and provide individuals with ways to reduce their own monthly energy bills. The Commission agrees with Staff's position that in years past natural gas demand side management (DSM) was not cost effective. However, that changed in 2000-2001 when natural gas prices rose dramatically. Natural gas prices have again risen to similar levels. Conservation and DSM programs are powerful tools Idahoans can use to mitigate the impact of this rate increase as well as ones that may occur in the future. In fact, the Commission has always believed that cost-effective DSM resources are generally least-cost resources and are of significant value to the Company, its customers and to the general community. We expect IGC to operate efficiently most especially during times like these where drastic increases in wholesale gas costs are a real possibility. Thus, IGC must look at all possible avenues to reduce costs to minimize the rate shock to customers as much as possible. In closing the Commission strongly encourages the Company to continue to explore and develop new conservation and DSM opportunities for its customers.

F. Customer Service Issues

The Commission finds that part of providing adequate service is being prepared to handle a large volume of complaints and inquiries regarding this rate increase. We, therefore adopt the Staff's recommendation that the Company shall use a facsimile machine to receive these queries and grievances in addition to its customer service telephone lines and Website. The Commission also strongly encourages the Company to continue to work diligently to improve its ability to timely address its customers' questions and complaints.

In addition, to assist customers in budgeting, the Company shall perform an additional Level Pay promotion in September 2003 so that customers have the opportunity to sign up before the winter heating season. Customers who choose to sign up for Level Pay in the fall will have their projected higher usage winter bills spread over a longer period of time.

ORDER

IT IS HEREBY ORDERED that Intermountain Gas's Application is partially granted. The Company shall file tariffs in conformance with an incremental rate increase of $0.155 per therm to achieve a WACOG of $0.475 per therm. The new tariff rates shall be effective on July 1, 2003.

IT IS FURTHER ORDERED that the current costs in Account No. 186 shall also be recovered through the Company's new PGA tariff, effective July 1, 2003, as proposed by the Company's request for recovery of temporary and permanent adjustments to surcharges and credits.

IT IS FURTHER ORDERED that the temporary surcharges and credits included in the Company's current prices during the past 12 months, pursuant to Case No. INT-G-02-3 are eliminated.

IT IS FURTHER ORDERED that ninety days (90) days from issuance of this Order Intermountain Gas shall file a formal, written Risk Management Policy with the Commission. This filing shall place special emphasis on managing reliability, price, service quality, credit risk and customer rate volatility. In addition, this formal policy should also include trigger points or volatility limits that could be used to make hedging decisions or forward market purchases. Finally, this filing shall also address the Company's long-term supply issues and opportunities.

IT IS FURTHER ORDERED that Intermountain Gas shall continue to file its quarterly WACOG reports for the current gas year and also begin filing WACOG projections for the subsequent gas year.

IT IS FURTHER ORDERED that Intermountain Gas shall continue to file with the Commission monthly summaries of its purchased gas transactions and related deferred balances.

IT IS FURTHER ORDERED that Intermountain Gas utilize a facsimile machine in order to take customer inquiries and complaints in addition to its customer service line and Website.

IT IS FURTHER ORDERED that Intermountain Gas initiate a Level Pay promotion in September 2003.

IT IS FURTHER ORDERED that Intermountain Gas notify its customers of the rate changes approved in this Order. The Company shall also advise its customers of how to obtain assistance from state and local natural gas customer assistance programs.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. INT-G-03-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this order or in interlocutory Orders previously issued in this Case No. INT-G-03-1. For purposes of filing a petition for reconsideration, this order shall become effective as of the service date. *Idaho Code* § 61-626. 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 30th day of June 2003.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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