

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** DONOVAN E. WALKER

**DATE:** AUGUST 15, 2005

**SUBJECT:** IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S 2005 PGA  
CASE NO. INT-G-05-2

On August 8, 2005, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission requesting authority to place new rate schedules in effect as of October 1, 2005 that will increase its annualized revenues by \$67.6 million (27.2%). Application at p. 2. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from the Williams Northwest Pipeline and other suppliers, including transportation, storage, and other related costs of acquiring natural gas. See Order No. 26019. Intermountain's earnings will not be increased as a result of the proposed changes in prices and revenues. Application at p. 8. The Company requests that its Application be processed by Modified Procedure. *Id.*

### THE APPLICATION

With this Application, Intermountain Gas seeks to pass through to each of its customer classes a change in gas related costs resulting from: (1) changes in the Company's firm transportation and storage costs resulting from the Company's management of its storage and firm capacity rights on pipeline systems, (2) an increase in the Company'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 Intermountain's deferred gas cost account. Application at pp. 3-4.

According to its Customer Notice, if its Application is approved, the Company states that rates for residential customers using natural gas for space heating only could increase an average of 25.5%. Rates for residential customers using natural gas for space and water heating could increase an average of 27.4%, and rates for commercial customers could increase an average of 28.4%.

Intermountain Gas proposes increasing the WACOG from the currently approved \$0.55492 per therm to \$0.73219 per therm. Application at p. 5. The Company states that over the past year natural gas prices have more closely followed the price of crude oil, as hedge funds and traders have become increasingly indifferent as to which commodity provides btu's to the marketplace, and that both crude oil and natural gas prices are at historic high levels. *Id.* The Company states that the price levels in its Application are forward prices currently available through the use of financial derivatives as of July 29, 2005. Application at p. 6. Although current commodity futures prices dictate the use of \$0.73219 WACOG, Intermountain states that it continues to remain vigilant in monitoring natural gas prices and is committed to come before the Commission prior to this winter's heating season to amend these proposed prices, if the forward prices materially deviate from the \$0.73219 per therm. *Id.*

The Company proposes to include various surcharges, credits, and adjustments in its proposed prices. Application at pp. 6-8. Intermountain has included the elimination of temporary surcharges and credits pursuant to last years PGA, Case No. INT-G-04-2. Application at p. 6, Exhibit 4, l. 33. The Company includes a fixed cost collection adjustment pursuant to the provisions of its PGA tariff which provides that proposed prices will be adjusted for updated customer class sales volumes and purchased gas cost allocations. Application at p. 6, Exhibit 6, l. 24. The Company proposes to pass back to customers the benefits generated from its capacity release agreements through the inclusion of a \$2.3 million credit. Application at p. 7, Exhibit 7, l. 1. Further, the Company proposes to allocate deferred gas costs from its Account No. 186 balance to customers through temporary price adjustments effective during the 12-month period ending September 30, 2006 as follows: (1) fixed gas costs debits of \$7.5 million attributable to collection of interstate pipeline capacity costs and the true-up of expense issues previously ruled on by the Commission; and (2) deferred gas cost debits of \$8.7 million attributable to variable gas costs since July 1, 2004. Application at p. 7. Intermountain proposed to collect each balance via a per therm surcharge and credit. *Id.*

The Company states that a straight cents-per-therm price decrease was not utilized for the T-1 tariff. The proposed decrease in the T-1 tariff is fixed cost related, and since there are no fixed costs recovered in the tail block of the T-1 tariff, a cents-per-therm decrease was made only to the first two blocks of the tariff. Application at p. 7. Likewise, since the proposed increase to the T-2 tariff demand charge is fixed cost related, a cents-per-therm increase was made to the T-2 demand charge. *Id.*, at p. 8.

The Company states that customers have been notified about the Application through a Customer Notice and a Press Release. Application at p. 8. Intermountain Gas requests that this matter be handled under Modified Procedure pursuant to Rules 201-204 of the Commission's Rules of Procedure. *Id.*

### STAFF RECOMMENDATION

Given the size of the proposed increase, as well as the proposed effective date of October 1, 2005, Staff recommends that this case be processed under Modified Procedure with comments due by September 20, 2005. Additionally, Staff recommends that two public workshops be conducted, one in Boise and one in Pocatello, during the week of September 12-16, 2005, prior to Staff submitting comments.

### COMMISSION DECISION

1. Does the Commission wish to process this case under Modified Procedure?
2. Does the Commission wish to have Staff conduct public workshops, pursuant to Rule 125, prior to Staff filing comments in this case?
3. Does the Commission wish to schedule a public hearing(s) for this matter? If so, does the Commission prefer to hold public hearings in conjunction with the public workshops, or schedule a public hearing after the submission of comments?



Donovan E. Walker

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