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IDAHO PUBLIC
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2005 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. INT-G-05-2** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donovan E. Walker, Deputy Attorney General, in response to Order No. 29856, the Notice of Application and Notice of Modified Procedure issued on August 26, 2005, respectfully submits the following comments.

BACKGROUND

On August 8, 2005, Intermountain Gas Company (Intermountain; 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 of gas purchased from various suppliers, including transportation, storage, and other related natural gas acquisition costs. See Order No. 26019. The

Company's earnings will not be increased as a result of the proposed changes in prices and revenues. Application at p. 8.

Commission Staff conducted a public workshop in Pocatello on September 12, 2005, and in Boise on September 13, 2005, in order to dispense information concerning the Company's Application and to receive comments from the public prior to filing its own comments with the Commission.

THE 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 p. 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 would increase an average of 25.5%. Rates for residential customers using natural gas for space and water heating would increase an average of 27.4%, and rates for commercial customers would 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 also proposes to include various surcharges, credits, and adjustments in its proposed prices. Application at pp. 6-8.

Staff has calculated the impact of the Company's proposal by class of service as follows:

Customer Class	Proposed Increased Class Revenue	Proposed Average Increase $/Therm	Proposed Average % Increase	Proposed Average Price $/Therm
RS-1 Residential	9,065,627	0.25572	25.49%	1.25888
RS-2 Residential	35,247,192	0.24543	27.44%	1.13985
GS-1 General Service	22,643,239	0.24223	28.36%	1.09646
LV-1 Large Volume*	593,241	0.21301	31.51%	0.88894
T-1 Transportation	-1,525	-0.00009	-0.08%	0.11085
T-2 Transportation (Demand)	8,492	0.01285	1.50%	0.86678
T-2 Transportation (Commodity)	-566	-0.00003	-0.46%	0.00653
	67,555,700	0.21713	27.21%	1.01524

The overall effect of the proposed changes would be an increase in the Company's revenues of $67,555,700. The net increase is made up of:

Proposed Permanent Price Changes			
Increase in Producer/Supplier Costs	$	48,806,362	*(1)*
Changes in Storage and Transportation Costs		5,143,144	
Adjustments to Fixed Cost Collection Rate		(1,162,244)	*(2)*
Eliminating INT-G-04-02 Temporary Surcharges		832,890	
Total Permanent Price Change	$	53,620,152	
Proposed Temporary Surcharges (Credits)			
Fixed Cost Collection Adjustment	$	10,500,307	
Capacity Release & Purchases		(2,236,131)	
Segmentation Credits		(2,333,963)	
Undercollection of 186 Variable Accounts		8,730,036	
Other Items		(724,701)	*(3)*
Total Temporary Price Surcharges (Credits)		13,935,548	
Total Proposed Price Change	$	67,555,700	

Notes:

1. Increase in Producer/Supplier purchases also includes the change in the WACOG for LV-1 calculated by taking the change in the WACOG of $0.17727 * LV-1 therms of 2,785,039 for an LV-1 increase of $493,704.
2. The Exhibit 6 changes to the Fixed Cost Collection Rate are multiplied by Exhibit 4 volumes to tie to Exhibit 11 rather than being multiplied by the forecast volumes from Exhibit 6 as they are in the filing (difference of $110,280).
3. Includes rounding of $772.

STAFF REVIEW

Staff has reviewed the Company's filing and gas purchase contracts to verify that the Company's earnings will not increase because of the filing, that the deferred costs are prudent, and to determine the reasonableness of the WACOG request. During the course of the investigation, Staff made additional findings, which are discussed below.

15-Month Deferral of Purchased Gas Costs

In Order No. 29540, the Commission required Intermountain Gas Company to submit its next PGA filing by August 15, 2005 with new rates going into effect on October 1, 2005. Prior to 2005, rate changes due to Intermountain's PGA filings were effective on July 1. In this current PGA filing, Intermountain accrued 15 months worth of deferred gas costs and fixed pipeline charges instead of the usual 12 months.

The purpose of changing the effective date of the PGA rate changes was to better align the price changes with the time the gas was to be used. By establishing an August filing date, the Company and Staff will have more reliable data in which to estimate winter gas commodity prices. However, the additional 3 months of deferred variable and fixed expenses added substantial amounts to this increase. Most of the $8.7 million in variable costs and the majority of the $10.5 million under collection of the fixed costs is due to the additional 3 months. Customers would have paid these costs no matter when the Company filed its application, but with the later filing, the payment of these amounts was deferred by three months. Beginning with the PGA filing in 2006, and subsequent filings, the deferral period will revert to 12 months.

New Gas Contracts for Purchases and Storage Management

During the previous year, Intermountain had the opportunity to acquire additional gas storage facilities in the Clay Basin region. The Company contracted for the storage with Questar after conducting a cost and benefit analysis and submitting the winning bid for use of the storage for the next 35 years. The additional storage allows the Company to purchase gas in the summer when prices have traditionally been lower and use the gas during the winter when gas is traditionally higher priced. Although gas price volatility has made winter-summer price spreads less predictable, the storage continues to provide operational flexibility that allows the Company to save money by avoiding certain high-priced peaks during the winter. Staff has reviewed the analysis performed by the Company and agrees that the additional storage does tend to reduce the costs that will ultimately be passed on to customers.

Intermountain is currently pursing bids to manage the storage for the duration of its contract with Questar and will select the proposal that is most beneficial to customers and the Company. Staff will review the bidding process and the resultant contract during the next PGA year.

2004-2005 Financial Hedge Transaction

During the PGA year, Intermountain used two different hedging strategies. First, the Company compared the first of the month gas price to what it believed would be the daily prices for the coming month. If the daily prices were forecasted to be lower, the Company would trade its monthly price for a series of daily prices and include that savings or cost in the actual cost of gas. This was done six times during the year and overall it was less expensive than the first of the month price.

The second type of hedging strategy Intermountain executed involved a traditional financial instrument to fix the price of gas for any given month or months. In December (as it does each month), the Company's Gas Management Committee (Committee) reviewed a variety of factors to determine if it should fix the price of gas for all or a portion of gas purchased for upcoming periods. The Committee decided to execute fixed price hedges for 90% of January 2005 gas purchases. This analysis was based on the estimated future cost of gas in January and the probability that the cost to purchase the gas could be higher than the all-in-cost to purchase a hedge. The Committee determined that it could purchase hedges that would be at a lower cost than the filed WACOG for January and provide a high degree of price stability during this winter month of higher price volatility. The Company provided detailed documentation and analysis to justify its decision to undertake the transaction. Even though the actual prices for January turned out to be lower than the hedges, customers were protected from potential price increases that could have occurred.

Overall, the Company's financial hedges provided a benefit of $115,033.06 to customers for the PGA year.

Weighted Average Cost of Gas (WACOG)

The Company's requested WACOG of $0.73219/therm is an increase of 31.95% over the $0.55492 WACOG currently included in Intermountain's rates. The current WACOG was approved last year in Order No. 29540 and has been in effect since July 1, 2004. The chart below provides a five-year history of the annual WACOG and illustrates the volatility of the natural gas market during this period:

Year	WACOG	% Increase Over Prior Year
2000	$0.42296	n/a
2001	$0.35295	(16.55)
2002	$0.32000	(9.34)
2003	$0.47500	48.44
2004	$0.55492	16.83
2005	$0.73219	31.95

Last year's WACOG of $0.55492/therm was based on forward gas prices for the Company's supply sources as of the date of submittal and while actual gas prices varied throughout the year, the WACOG estimates were fairly reflective of market rates through most of the PGA year. The result was very little accrual in the Company's gas cost deferral account for the 12 months ending June 30, 2005. However, over the course of the past three months, daily NYMEX spot prices, as well as prices at local hubs, for gas have risen dramatically both before and after Hurricane Katrina. NYMEX has spiked at $1.39/therm and then softened to a current price of $1.17/therm.

Increases in the Company's cost of natural gas and the price risk posed by the natural gas market require an understanding by customers, Staff and the Commission of the factors driving the WACOG. Growing demand combined with long lead times to deliver new production to consumers contributes to the continuing upward trend in prices. Similarly, new pipelines can now deliver Northwest natural gas to eastern and California markets in larger volumes than a few years ago. The supply basins where Intermountain purchases its gas have experienced this additional demand. The upward volatility of world market energy prices is also affecting North American natural gas prices. The sum of these factors has driven prices the Company currently pays and the forecasts of future costs to record levels. They have also resulted in uncertainty about when and where prices will stabilize.

The Company proposed WACOG of $0.73219 per therm, was reviewed by Staff against other forecasts, including those published weekly by the US Energy Information Administration. Staff notes that this requested increase, reflects the Company's belief that the increasing cost of gas it has paid in the 15 month 2004-2005 PGA year will continue. Current views of natural gas forward pricing include considerable uncertainty. In fact, market prices have increased since the Company proposed the WACOG on August 15, 2005 and forward prices indicate the possibility of an even higher WACOG. However, like the past two years, there are also market expectations that prices will decrease in the coming year.

The impact of hurricane Katrina is not included in the proposed WACOG since it was calculated prior to that event. The very large natural gas price increases seen immediately after Katrina have begun to moderate. If production and transport can be brought back on-line quickly and there are no further storms in the gulf, forward prices may return to pre-hurricane levels.

Nationally, the level of gas being placed into storage, for winter withdrawal, has dropped as prices have risen in late summer. However, the total storage that is predicted to be available as the heating season begins is well within the average range for the most recent five-year period. The Company relies heavily on its own storage agreements to mitigate winter demand and price spikes. Intermountain has the full capacity of its storage available for this coming winter. The Company's storage quantities should be sufficient to meet winter demand spikes.

The increase in purchased cost of gas for the Company, if approved by the Commission, will have a significant adverse impact on consumers, especially lower and fixed income consumers. The proposed price increase will be a strong signal to consumers to conserve and to consider alternative heating sources. However, given the magnitude and cost of deferring the proposed 2004-2005 permanent increase ($53.6 million per year), Staff does not believe it is a reasonable to deny the proposed increase. In addition to sending a less appropriate price signal, setting a lower WACOG would ignore additional price increases that have occurred since the Company's filing and the potential for a higher deferral balance subject to recovery next year.

In addition to its recommendations to approve the Company's requested WACOG, Staff also recommends that the Company be directed to continue its monthly reporting of the changes to balances in the deferral accounts and continue to provide a quarterly WACOG report.

Risk Management and Gas Purchasing Decisions

During the audit of the 2004 PGA costs, Staff raised concerns regarding the gas purchasing policies of Intermountain Gas. These concerns related to a lack of a hedging policy and procedures that establish trigger points and volatility limits to support and justify the Company's gas purchasing decisions. Staff recommended and the Commission ordered that $696,276 be set aside for this case to make sure that the Company implemented the changes ordered by the Commission. These changes should include an enhanced decision-making system and possible trigger points for purchases. Continued improvements in documentation were also stressed.

Staff has worked with Intermountain over the last 15 months to assist the Company in developing a more appropriate risk management/hedging policy. On September 1, 2005 Intermountain Gas filed its Gas Supply Risk Management Program – Objectives, Policy, Guidelines & Procedures (RMC Program). This document represents the efforts of the Company and Staff to accomplish the goals and objectives outlined in Order No. 29540 along with Company and Staff concerns. The Risk Management Program is an ongoing effort that Staff and the Company expect to enhance and refine as the RMC Program is evaluated in connection with the marketplace.

The RMC Program objectives are stated as follows:

a) help insure adequate natural gas supplies, transportation and storage are available for its customers needs;
b) to mitigate the adverse impact that significant price movements in the natural gas commodity can have on the Company's supplies, customers and other operations, and
c) minimize the credit risk inherent in the implementation of certain price risk reducing strategies.

The RMC Program addresses gas price mitigation with an analysis of actual and anticipated commodity prices in the WACOG in connection with the stated Fundamental Natural Gas Supply and Demand Price Drivers (Fundamental Factors). These Fundamental Factors are listed in the RMC Program along with Risk Management/Hedging Instruments and Hedging Guidelines. The Guidelines establish current trigger or alert points with volume levels of gas purchases in relation to the currently filed WACOG. Staff will file separate comments associated with the RMC Program to specifically address the individual aspects of the program and make Staff's recommendation to the Commission. Staff recommends the $696,276 previously set aside be included for recovery.

CONSUMER ISSUES

Customer Notice and Press Release

The customer notice and press release were included in Intermountain's Application. The Application was received on August 8, 2005. Staff reviewed the customer notice and press release and determined they were in compliance with the requirements of IDAPA 31.21.02.102. The customer notice was mailed with cyclical billings beginning August 8, 2005 and ending September 8, 2005. Customers were given through September 20, 2005 to file comments.

Customer Comments

As of September 16, 2005, the Commission had received 21 written comments from customers. All but one customer opposed an increase. More than one-half of the comments came from low-income and senior citizens on fixed incomes who were concerned about being able to make ends meet. One customer wrote, "According to what we understand, the current commodity market is affecting everyone across the nation. However, based on this premise, I am frustrated that people in Idaho will be paying the same price as those who live in New York City and Los Angeles, who are sometimes making 5 times more than the average Idaho wage earner." Another customer said, "…many businesses in the valley have had to take several methods to eliminate internal costs including reducing labor force and or salary reductions or wage freezes." The one customer who did not oppose the increase stated that he had skimmed through the case file and it was apparent to him that the intention of Intermountain was to keep up with the rising wholesale costs. He said that even though he doesn't want to see increases in his winter heating costs, he doesn't want his service to suffer from lack of funds to supply the product.

Customer Relations

Given the significant rate increase recommendation in this case, the past history of increases, and the potential for additional increases in the future, Staff believes it important to identify issues and measures that could reduce the impact on those least able to pay. Staff recommends that a new docket be opened to address the issues of customer deposits, fuel fund contributions, and low-income weatherization.

The first issue identified by Staff to impact customers as rates increase is customer deposit requirements. Twice as many deposit-related complaints and inquiries were received by the

Consumer Assistance Staff in 2005 than in 2004. The increase can be attributed in part to a rule change that became effective in 2003 that allows Intermountain to collect higher deposit amounts from customers who use gas service for space heating only (RS-1). Until 2003, Rule 105 stated a deposit could not exceed one-sixth of the annual estimated billings for one year. While that formula still holds true for other regulated utility deposits collected, Rule 105 was modified to allow collection of deposits from space-heating only customers based on the total of the two highest months' usage during the previous 12 months and adjusted for current rates. Using the new formula, the deposit amount required of a space-heating-only Intermountain customer is approximately 45% higher than the deposit amount for a customer with both furnace and water heater. Space-heating only customers pay a higher rate per therm. The combination of higher rates, a substantial rate increase, and deposit collection policies create a situation where space-heating only customers are disproportionately affected by higher rates.

Significantly higher rates for natural gas may exacerbate credit and collection issues, increase disconnections due to non-payment, and result in higher deposits for the customers who can least afford to pay more. Customers who struggle to pay their bills and end up having service disconnected are required to pay the total amount that is past due in order to re-establish gas service as well as a deposit and reconnect fee. That may present an insurmountable barrier for some customers, preventing them from re-establishing service.

Incentives to Improve Energy Efficiency and Financial Assistance for Paying Heating Bills

Customers will feel the financial "crunch" of an additional 27% increase to heating costs this winter and should consider taking advantage of available financial assistance programs and whatever measures are possible to make sure their homes and appliances are operating efficiently so that neither energy nor money is wasted.

Low-income customers of Intermountain have some options for financial assistance through the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and several non-profit fuel funds: Project Share in southwestern Idaho and Project Warmth and Helping Hand in southeastern Idaho.

Utility customers donate to these fuel funds and utility shareholders also contribute to the funds annually. However, there is a disproportionate contribution from Intermountain Gas Company as compared to other Idaho energy companies. On an annual basis, Avista donates approximately $0.31 per customer to its local fuel funds, Utah Power & Light about $0.22 per customer to southeastern Idaho fuel funds, Idaho Power about $0.13 per customer to Project Share in its service territory, and Intermountain about $0.03 per customer to Project Share and Project Warmth in its service territory.

While Intermountain provides information regarding energy efficiency on its Website, it provides very little in the way of financial incentives to customers for energy efficiency. There are no conservation or weatherization programs designed specifically for low-income customers.

Intermountain Gas Company does have a Natural Gas Equipment Finance Program through Wells Fargo Bank. Although it is not low interest, and the loan must be for at least $1,000 or more, the loans are generally processed very quickly, often within 24 hours. Applicants need to be able to meet certain credit-related criteria.

Intermountain also gives a $200 rebate to customers who convert their heating systems from another energy source, such as electric or heating oil, to at least a 90% efficient natural gas furnace. However, gas-to-gas conversions, including conversions from low to high efficiency gas furnaces, do not qualify for the rebate program.

For those low-income or fixed-income customers who live in poorly insulated housing stock or who are using inefficient appliances, assistance may be available to improve a home's energy efficiency through various agencies receiving funds from federal, state, and local grants as well as private foundations, corporate and individual donations. All regulated Idaho energy utilities provide funds for the purposes of helping low income customers weatherize their homes except Intermountain Gas Company. To summarize annual low-income weatherization program funding by the major energy companies regulated by the Commission, the funds given to agencies by Idaho Power come to about $3.40 per customer, about $2.30 from Avista, and about $0.80 per customer from PacifiCorp. Intermountain provides no funding for low-income weatherization. Staff notes that all funding for utility low-income weatherization programs is collected through rates charged to utility customers.

Staff recommends that the issue of disproportionate contributions for low-income assistance by Intermountain Gas as compared to other Idaho energy utilities be addressed given the rapid increases in natural gas prices. Staff also recommends that the Commission review Intermountain's existing energy efficiency programs and examine the need to establish new energy conservation and weatherization programs, especially with respect to low-income customers.

RECOMMENDATIONS

Based on the comments above, Staff recommends the following Commission actions:

1. Approve the WACOG of $.773219/therm as requested.
2. Approve the collection of the deferred amounts as requested.
3. Allow the Company to collect the $696,276 that was reserved last year while risk management actions were investigated.
4. Direct the Company to continue to file its quarterly WACOG projections and monthly deferred costs reports with the Commission and Staff.
5. Open a docket to evaluate customer issues such as: customer deposit rules, policies and practices; the Company's contributions to fuel funds, and energy conservation and weatherization programs for Intermountain Gas Company.

Respectfully submitted this 20th day of September 2005.

Donovan E. Walker
Deputy Attorney General

Technical Staff: Donn English
Alden Holm
Marilyn Parker
Harry Hall

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF SEPTEMBER 2005, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-05-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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