DECISION MEMORANDUM

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

FROM: DONOVAN E. WALKER

DATE: AUGUST 24, 2006

SUBJECT: CASE NO. INT-G-06-4, INTERMOUNTAIN GAS COMPANY'S 2006 PGA

On August 16, 2006, 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, 2006 that will decrease its annualized revenues by $1.6 million (.5%). Application at 2. The PGA mechanism is used to adjust rates to reflect changes in costs for the purchase of natural gas from suppliers, including transportation, storage, and other related costs of acquiring natural gas. *See* Order No. 26019. Intermountain's earnings will not be decreased as a result of the proposed changes in prices and revenues. Application at 2. The Company requests that its Application be processed by Modified Procedure. Application at 9.

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) an increase in costs billed to Intermountain pursuant to the general rate cases filed by Northwest Pipeline Corporation (NPC) and Gas Transmission Northwest Corporation (GTN), (2) benefits included in Intermountain's firm transportation and storage costs resulting from the Company's management of its storage and firm capacity rights on pipeline systems including NPC and GTN, (3) a decrease in Intermountain's Weighted Average Cost of Gas (WACOG), (4) an updated customer allocation of gas related costs pursuant to the Company's PGA provisions, and (5) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from the Company's deferred gas cost account. Application at 3-4.

According to its customer notice, if its Application is approved as filed, all residential and commercial customer's unit prices will be essentially unchanged for natural gas used during this next year and the Company's total net revenue will decrease by approximately $1.6 million (.5%). The Company stated that despite increases in other energy prices, such as crude oil's 30% increase during the past year, it expects to be able to manage its natural gas purchases such that it will not need to raise customer prices for this next winter season.

Intermountain Gas proposes decreasing the WACOG from the currently approved $0.73219 per therm to $0.72400 per therm. Application at 5. The Company states that the proposed WACOG includes the benefits to Intermountain's customers generated by the Company's management of significant natural gas storage assets whereby gas is procured during the traditionally lower priced summer season for withdrawal and use during the winter when prices would otherwise be substantially higher. Application at 6. The Company also reports that natural gas prices have been moderated by: historically high levels of natural gas stored in the nation's inventory; natural gas production which has come back online in the Gulf of Mexico following Hurricane Katrina; the moderate outlook for the upcoming hurricane season; and price induced increases in domestic natural gas rig counts and production. Application at 5-6. The Company states that although current commodity futures prices dictate the use of a $0.72400 WACOG, 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 $0.72400 per therm. Application at 6.

The Company proposes to include various surcharges, credits, and adjustments in its proposed prices. Application at 7-8. Intermountain has included the elimination of temporary surcharges and credits pursuant to last year's PGA, Case No. INT-G-05-2. Application at 7, Exhibit 4, L. 29. 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 7, Exhibit 5, L. 24. The Company proposes to pass back to customers the benefits generated from its capacity release agreements through the inclusion of a $3.5 million credit. Application at 7, Exhibit 7. 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, 2007 as follows: (1) fixed gas costs credit of $3.1 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 $14.1 million attributable to variable gas costs since September 1, 2005. Application at 7-8. Intermountain proposed to collect the balances via the per therm surcharges and credits. *Id.*

The Company states that a straight cents-per-therm price decrease was not utilized for the T-1 tariff. Absent Williams' firm transportation TF-1 commodity charge, 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 8. 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.* Additionally, the proposed decrease to the T-2 commodity charge incorporates the decrease in the Williams' firm transportation TF-1 commodity charge. *Id.*

The Company states that customers have been notified about the Application through a customer notice and a press release. *Id.* Intermountain Gas requests that this matter be handled under Modified Procedure pursuant to Rules 201-204 of the Commission's Rules of Procedure. *Id.* at 9.

STAFF RECOMMENDATION

Since the Company's Application requests a nominal decrease in the WACOG, with relatively stable customer pricing relative to last season, Staff recommends that it would be appropriate to process this case by Modified Procedure, as requested by the Company, with comments due by September 20, 2006.

COMMISSION DECISION

1. Does the Commission preliminarily find that the public interest may not require a hearing to consider the issues presented in this case, and that issues raised by the Company's filing may be processed by Modified Procedure?

2. Does the Commission wish to schedule a public hearing(s) for this matter?

DONOVAN E. WALKER

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