DECISION MEMORANDUM

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

FROM: DONOVAN E. WALKER

DATE: SEPTEMBER 22, 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 approximately $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 increased as a result of the proposed changes in prices and revenues. Application at 2.

On August 29, 2006, the Commission issued a Notice of Application and authorized Modified Procedure with a comment deadline of September 20, 2006. Order No. 30121. The only comments filed were those of Commission Staff. On September 20, 2006, the Company filed amended exhibits and proposed tariff sheets, amending their initial Application by asking to incorporate a lower WACOG than originally proposed. The Company also filed an amended news release as well as a Motion to Waive Further Customer Notification regarding the additional decrease in the proposed WACOG.

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 original 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, that 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 proposed in its original Application to decrease 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 on-line 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-05-02. 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 proposes 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 AMENDED WACOG REQUEST

On September 20, 2006, Intermountain Gas filed amended exhibits reflecting a further decrease in the proposed WACOG from its original Application. The currently approved WACOG is $0.73219 per therm. The original Application sought a decreased WACOG to $0.72400 per therm. The amended exhibits propose a WACOG of $0.68500 per therm. If approved by the Commission, the amended WACOG would further decrease the Company's annual revenues by $11.2 million resulting in a total decrease of $12.8 million (3.86%).

The reduced WACOG is the only change proposed to the original Application. The Company states that the lower WACOG reflects a further softening of the wholesale price of natural gas and the Company's purchasing strategies towards the same. The Company states that with the amended WACOG it seeks to pass through to its customers the further decline in natural gas prices that occurred subsequent to its original filing.

The Company also filed a Motion to Waive Further Customer Notification regarding the proposed change in the requested WACOG. The Company states that customers were notified of the original Application through individual customer notices and a press release. Rather than send individual notices of the incremental decrease to its customers, the Company proposed to alert its customers through the news release filed with the Amended Application, and states that it will provide notice of the outcome of this case through individual bill stuffers. The Company further states that it believes that as a result of the Commission's Notice of Modified Procedure, Order No. 30121, and the Company's original notices and press release that customers are already aware of the Application and the process to communicate with the Commission regarding the Application. The Company believes that individual notice of the additional incremental decrease, other than through a supplemental news release, is unnecessary and therefore, seeks a waiver regarding individual notice.

STAFF COMMENTS

Staff reviewed the Company's Application and gas purchase contracts to verify that the Company's earnings will not change as a result of the filing, that the deferred costs are prudent, and to determine the reasonableness of the WACOG request. After a complete examination of the Company's Application and gas procurements for the year, Staff recommends: (1) that the Commission accept the Company's Application and filed tariffs, reducing the approved WACOG and the Company's annual revenue; and (2) that the Commission reserve the right to reopen any approved tariffs should the FERC pipeline rate increases be less than what the Company has included in the Application.

The Company's Application includes proposed prices that are weighted to account for a January 1, 2007, effective date of the proposed price increases from Northwest Pipeline Corporation (NPC) and Gas Transmission Northwest (GTN), both of which have pending general rate cases pending before the Federal Energy Regulatory Commission (FERC). Though the outcome of the proceedings is uncertain until a final order is issued by FERC, an increase in transportation costs is likely given that rates charged by these two pipeline corporations were set over 10 years ago.

Intermountain Gas has estimated the dollar impact of the pipelines' cost increases to be \$11,294,815 for the 2006-2007 gas year. Since the increases are subject to possible negotiation between the pipelines and their customers, and are subject to FERC approval, it is reasonable to expect that the approved transportation price increases may be lower than those requested by the pipelines. Staff recommends that the weighting methodology used by Intermountain to determine the annual impact of the January 1, 2007, pipeline rate increases on the total cost of service is appropriate. The methodology aligns the transportation increases with the Purchased Gas Cost Adjustment during the PCA year in which the increases occur. Rather than deferring the entire effect of the increases until next year, the Company will only have to true-up any differences between the applications filed by GTN and NPC and the final order to be issued by FERC. Staff recommends that the Commission reserve the right to reopen any approved tariffs should the FERC pipeline rate increases be less than what the Company has included in the Application.

Staff reports that the previously approved WACOG was fairly reflective of market rates through most of the PGA year, and consequently resulted in a nominal balance in the Company's deferral accounts for the 12 months ended June 30, 2006, and a small decrease in customer rates for the coming year. Last year's WACOG was established just prior to the time when Hurricanes Katrina and Rita struck the gas and oil producing areas of the Gulf Coast. This disruption of gas supply in the Gulf of Mexico caused very large spikes in the wholesale cost of natural gas throughout North America. This increase in the prices of natural gas after the hurricanes was not anticipated in the WACOG approved by the Commission and resulted in the Company having to purchase natural gas at prices much higher than had been forecast. Without the supply disruption from the hurricanes, and the ensuing spike in prices, the Company's forecasts from the 2005 PGA case would have been accurate and deferral balances would have been minimal.

The Company's proposed WACOG in its original Application of $0.72400 per therm is slightly less than that which could be justified when applying the forward prices available as of June 30, 2006 to the purchases that are yet to be made. However, the Company has taken the aggressive stance that it can deliver the natural gas yet to be purchased for a lower price than the forward prices indicate. Staff recommends that the deviation from the use of the NYMEX pricing is acceptable in this case because: all natural gas needed for Intermountain's storage has already been purchased at favorable prices; the resulting affect of the Company's aggressive forward purchasing plan on the WACOG is small; and the risk is placed on the Company rather than the consumer. Intermountain's substantial storage capacity has allowed it to take advantage of lower prices when they have occurred by hedging the entire storage season's purchase at a favorable price early in the summer.

The Company and Staff are continuing to evaluate and work on the risk management guidelines with the "Gas Supply Risk Management Program." The objectives of the program are to: (a) help ensure adequate gas supplies, transportation, and storage are available for its customers; (b) 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. Staff reports that the Company's documentation of its market evaluations and market fundamentals continues to improve, and the market expertise and experience of the Company and its purchasing agent are extensive.

Finally, Staff reviewed the Company's customer notice and press release and determined they were in compliance with the requirements of IDAPA 31.21.02.102. No customer comments were received by the Commission. Although the Company did not propose an increase to gas rates for the upcoming year, Staff points out that gas rates have nearly doubled since the year 2000, and that many customers continue to struggle to make ends meet. Staff would like to remind qualified customers to take advantage of the energy assistance programs available to them.

Because the Company's amended WACOG and exhibits were filed on the same day that Staff Comments were due, Staff did not have an opportunity to comment upon the amended numbers in its written comments. However, after reviewing the amended exhibits Staff does not change its recommendation set forth in its written comments. The only change in the amended request is a further lowering of the requested WACOG, resulting in a larger rate decrease for customers. This is the result of the Company taking advantage of purchases at lower prices subsequent to when they filed the original Application in this case.

COMMISSION DECISION

Does the Commission wish to approve the Company's Application, as amended by its September 20, 2006, filing? Does the Commission wish to reserve the right to reopen any approved tariffs should the FERC pipeline rate increases be less than what the Company has included in the Application?

Donovan E. Walker