Office of the Secretary
Service Date
September 26, 2007

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2007 PURCHASED GAS COST ADJUSTMENT)	)))))	CASE NO. INT-G-07-03 ORDER NO. 30443

On August 16, 2007, 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, 2007 that will decrease its annualized revenues by $25.4 million (7.7%). 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 changed as a result of the proposed changes in prices and revenues. Application at 2.

The Commission authorized the use of Modified Procedure with a comment deadline of September 18, 2007. Order No. 30413. Comments were filed by Commission Staff and by the Northwest Industrial Gas Users. After reviewing the comments and record in this case the Commission approves the Company's Application as more fully set forth below.

THE COMPANY'S APPLICATION

With its Application, Intermountain Gas seeks to pass through to each of its customer classes a change in gas-related costs resulting from: (1) a decrease in costs billed to Intermountain pursuant to the settlement of the general rate case filed by Northwest Pipeline Corporation (NPC); (2) the annualized impact of the general rate case filed by Gas Transmission Northwest Corporation (GTN); (3) changes in Intermountain's firm transportation and storage costs resulting from its management of storage and firm capacity rights on pipeline systems including NPC and GTN; (4) a decrease in the Company's Weighted Average Cost of Gas (WACOG); (5) an updated customer allocation of gas-related costs pursuant to the PGA provisions; (6) the collection of unaccounted-for gas on Intermountain's distribution system; and (7) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from the Company's deferred gas cost accounts. Application at 3-4.

According to the Company's customer notice in this case, if its Application is approved as filed, residential customers using natural gas for space heating and water heating could experience a $6.00 decrease (8.1%) on an average monthly bill. Those residential customers using natural gas for space heating only could experience a $4.00 decrease (7.5%) on an average monthly bill. Commercial business customers could realize an average monthly bill decrease of $29.00 (8.7%). Industrial customers who use only Intermountain's delivery service, but do not purchase their natural gas from the Company, could experience an average increase of 9.5% or $0.004 per therm delivered.

Intermountain Gas proposes to decrease the WACOG from the currently approved $0.68500 per therm to $0.63583 per therm. Application at 6. 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 7. The Company states that although current commodity futures prices dictate the use of a $0.63583 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 $0.63583 per therm. Application at 7.

Intermountain Gas proposes to incorporate the benefits of lower prices resulting from a settlement filed in the 2006 NPC general rate case. In last year's PGA, Case No. INT-G-06-04, Intermountain's prices reflected the inclusion of nine months of NPC's proposed increased transportation costs, subject to refund pursuant to FERC's order on the then-pending rate case. The subsequent settlement reached in NPC's rate case was approved by FERC with an effective date of April 1, 2007. Intermountain Gas proposes to incorporate the benefits of these lower prices to include the annualization, or 12-month application, of the rate reduction when compared with NPC's initial case. Application at 5. The outcome of GTN's general rate case proceeding is still pending before FERC, and Intermountain Gas proposes to incorporate the annualization or 12-month application of GTN's filed case. Additionally, Intermountain reports that its capacity costs have increased on several Canadian pipelines due to rate increases, expired temporary credits, and the tightening exchange rate between U.S. and Canadian currencies. Application at 5-6.

The Company states that it incurred costs to procure additional upstream capacity in order to more closely align deliveries from those upstream pipelines with Intermountain's takeaway rights on NPC at its Stanfield interconnect with GTN. Application at 6. These costs have been included at Exhibit 4, Row 5. The Company includes costs to procure additional incremental liquid storage at NPC's Plymouth LNG facility to enhance its overall storage portfolio. Application at 6. These costs are included at Exhibit 4, Row 13-18. The Company also states that it is party to certain agreements whereby it manages its storage-related assets in conjunction with a third-party asset manager. Intermountain Gas proposes to pass back to its customers the benefits generated from these agreements as shown on Exhibit 4, Line 19. 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-06-04. Application at 8, Exhibit 4, Line 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 8, Exhibit 5, Line 24. The Company proposes to pass back to customers the benefits generated from its capacity release agreements through the inclusion of a $3.4 million credit. Application at 8, 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, 2008 as follows: (1) fixed gas costs credit of $3.9 million attributable to collection of interstate pipeline capacity costs, the true-up of expense issues previously ruled on by the Commission, refunds attributable to the settlement of NPC's general rate case, and mitigating capacity-release credits from Intermountain's upstream capacity; and (2) deferred gas-cost credits of $1.5 million attributable to variable gas costs since October 1, 2007. Application at 8-9. Intermountain proposed to pass back the balances via the per-therm and credit. Application at 9, Exhibit 9, Line 4, Column (b), Exhibit 6, Line 3.

The Company states that a straight cents-per-therm price decrease was not utilized for the T-1 tariff. Application at 9. Absent Williams' firm transportation TF-1 commodity charge increase and the unaccounted-for gas recovery as included on Exhibit 9, the proposed increase in the T-1 tariff is fixed-cost related, and because there are no fixed costs recovered in the tail block of the T-1 tariff, a cents-per-therm increase related to fixed costs was made only to the first two blocks of the T-1 tariff. Application at 9-10. Likewise, because the proposed decrease to the T-2 tariff demand charge is fixed-cost related, a cents-per-therm decrease was made to the T-2 demand charge for these fixed costs. Application at 10. Additionally, the proposed increase to the T-2 commodity charge incorporates the increase in Williams' firm transportation TF-1 commodity charge pursuant to NPC's current tariffs as well as the collection of unaccounted-for gas as included on Exhibit 9. *Id.*

Customers were notified about the Application through a customer notice and a press release. *Id.* The Company requested an effective date for the new rates of October 1, 2007.

COMMENTS OF NORTHWEST INDUSTRIAL GAS USERS

The Northwest Industrial Gas Users (NWIGU) filed comments on September 18, 2007. NWIGU did not oppose the use of Modified Procedure and did not request a hearing. In its comments it generally supported Intermountain's proposed adjustments. NWIGU was primarily concerned with the proposed adjustment for lost and unaccounted-for gas (L&U gas). It requested that the Commission condition its approval of the L&U tracking adjustment to a factor that is capped at a 2% L&U gas level in prospective annual true-ups that will be used to credit or surcharge Intermountain's customers.

NWIGU stated that its members, many of whom are transportation customers of Intermountain, are impacted significantly by the imposition of the proposed new adjustment for lost and unaccounted-for gas at a 0.191 cents-per-therm recovery on all industrial throughput. However, its members view this adjustment as reasonable given the differential in gas costs between the factor embedded in rates from 1985 (when gas was $0.33 per therm) and current and prospective gas commodity markets. NWIGU also recognized the efficiency with which Intermountain maintains its system, with an L&U factor of just 0.7%, and that the new L&U adjustment allows recovery only for incremental L&U gas costs on the distribution system that will be trued up going forward with future PGA filings.

NWIGU stated that it did not want the creation of the L&U recovery mechanism to create any contrary incentive for the ongoing and conscientious efforts that Intermountain Gas undertakes to manage and operate its distribution system to minimize L&U gas. Consequently, it asked that the Commission limit future recovery under this mechanism to a reasonable ceiling of 2%.

COMMENTS OF COMMISSION STAFF

Staff reviewed the Company's Application and gas purchases 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 recommended: (1) that the Commission accept the Company's Application and filed tariffs, reducing the approved WACOG and the Company's annual revenue; (2) that the Commission reserve the right to reopen any approved tariffs should pipeline rate increases be less than what the Company has included in the Application; and (3) that the Commission reserve the right to reopen this case and reevaluate any approved tariffs if the WACOG materially changes below that included in the Application.

Staff reported that while gas prices varied greatly throughout the past year, last year's WACOG estimates were fairly reflective of prices that the Company paid for gas. The result was a nominal over-collection of the Company's variable costs, which will be returned to customers through credits over the next 12 months. The Company's proposed WACOG of $0.63583 per therm is slightly less than that which could be justified when applying the forward prices available as of June 30, 2007 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 recommended 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 effect of the Company's aggressive forward purchasing plan on the WACOG is small; and any difference will be deferred and collected in rates next year. Intermountain's substantial storage capacity has allowed it to take advantage of lower prices when they have occurred and makes it less dependent on spot-market purchases during the volatile winter months. Additionally, Intermountain is able to take advantage of increased production in the Rockies at a lower cost, and consequently, is able to utilize a WACOG considerably less than other utilities in the region.

Staff reported that the benefits from settlement of the NPC FERC rate case are proposed to pass through to customers with this filing through the annualized level of transportation costs from NPC. The benefit received by customers from the settlement is approximately $970,000. Staff also reported that the outcome of the GTN rate case is still pending at FERC, and Intermountain is proposing to incorporate the annualization, or 12-month application of GTN's filed rate, which increases Intermountain's annual revenue by $1,425,811. Staff believes that treatment of the pending GTN rate case is consistent and reasonable given the uncertainty of the timing and amount of increase to be granted by FERC. Staff recommended that, in the event that FERC approves an increase less than that proposed by GTN, the Commission reserve the right to reopen this case and reevaluate the approved tariffs that result from this proceeding.

Although Staff recommended that the Commission allow the Company to recover the additional amounts requested for lost and unaccounted-for gas, it also expressed some concern with regard to the Company's proposal. First of all, Staff stated that it is hesitant to recommend that recovery be allowed in the PGA, which is designed to recover supply costs that are out of the control of the Company, when many of the factors that affect the level of unaccounted-for gas are within the Company's control.

Staff noted that the industry average for lost and unaccounted-for gas is approximately 2%, and that Intermountain's rate is approximately 0.7%. The normalized level of revenue collected by Intermountain in its current base rates (set in 1985) for unaccounted-for gas is $445,905. Adjusted for growth, the normalized level is $934,721. The Company requested to recover the estimated amount of lost and unaccounted-for gas over today's normalized level adjusted for growth, an additional $1.6 million. Staff noted that approval of the Company's proposal should not guarantee the recovery of all lost and unaccounted-for gas, regardless of circumstances. Staff does not believe it is appropriate for gas losses due to faulty meters and meter-reading errors to be included in PGA rates. Staff stated that it would review the actual levels of unaccounted-for gas during next year's PGA audit to determine the appropriateness of the recovery.

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 stated that the Company's documentation of its market evaluations and market fundamentals continue to improve, and the market expertise and experience of the Company and its purchasing agent are extensive. Staff reported that the Company executed numerous financial hedges by locking in specific prices for gas during the 2006-2007 PGA year, and the hedging practices were successful because they were able to beat the WACOG and return nearly $1.5 million to customers in the coming year.

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. Although the Company did not propose an increase to gas rates for the upcoming year, Staff points out that many customers continue to struggle to pay their gas bills. Staff would like to remind qualified customers to take advantage of the energy assistance programs available to them, such as the federally funded Low Income Home Energy Assistance Program (LIHEAP) and non-profit fuel funds such as Project Share in southwestern Idaho and Project Warmth and Helping Hand in southeastern Idaho.

DISCUSSION AND FINDINGS

We have reviewed the record for this case, including the Application and comments. No protests to the Commission's use of Modified Procedure were filed. We continue to find that the public interest does not require a hearing to consider the issues presented in this case and that Modified Procedure is appropriate. IDAPA 31.01.01.204. The Commission has jurisdiction over Intermountain Gas Company, a public utility, its Application for authority to change rates and prices, and the issues involved in this case by virtue of Title 61, Idaho Code, specifically *Idaho Code* §§ 61-129, 61-117, 61-307, and 61-501, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

The Commission is required to establish just, reasonable, and sufficient rates for utilities subject to our jurisdiction. *Idaho Code* § 61-502. The Company's current PGA methodology was approved as modified in Case No. INT-G-95-1, Order No. 26019. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage, and other related costs of acquiring natural gas. The Company's earnings are not to be increased from changes in prices and revenues resulting from the annual PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

The Company requests with this Application to include recovery of lost and unaccounted-for gas on its system. No party opposed this request, however, both Staff and NWIGU expressed concerns about allowing this recovery. Staff was concerned about its inclusion in the PGA, when many of the factors that affect the level of unaccounted-for gas are within the Company's control. NWIGU recommended that any possible recovery of lost and unaccounted-for gas be capped at 2%. We find the Company's request to recover the estimated amount of lost and unaccounted-for gas over today's normalized level adjusted for growth to be reasonable for two main reasons. First, the normalized level of revenue collected by Intermountain Gas in its current base rates for unaccounted-for gas was last set in 1985. Secondly, the Company's rate of lost and unaccounted-for gas is exceptionally low (0.7%) when compared with an industry-wide average of 2%. While we appreciate the comments submitted by NWIGU on this issue, we decline to impose a 2% cap on this recovery at this time. There may come a time when a cap such as that suggested would be appropriate, but the Company presently does a comparatively good job managing its pipeline system to minimize lost and unaccounted-for gas, which we expect will continue. Approval of the Company's proposal does not guarantee the recovery of all lost and unaccounted-for gas, regardless of circumstances. We reserve the full rights to examine the issue(s) surrounding lost and unaccounted-for gas and make the appropriate adjustments. Staff will examine and audit the actual levels of unaccounted-for gas during next year's PGA, and we will determine the appropriateness of the recovery at that time.

Wholesale natural gas prices fluctuate, and in recent years have been quite volatile. The Company pursues a gas supply and risk management program designed 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. The Company has been able to take advantage of its storage options, and has made favorable gas purchases that have enabled the Company to seek a lower WACOG and thus lower prices for its customers for the second year in a row. We commend the Company for its continued improvement and successes in this effort. We find it reasonable to grant the Company's request, and decrease the approved WACOG from $0.68500 per therm to $0.63583 per therm. The rates approved in this Order shall become effective on October 1, 2007. *Idaho Code* § 61-618. The tariff sheets filed with the Company's Application are hereby approved.

ORDER

IT IS HEREBY ORDERED that Intermountain Gas Company's Application in Case No. INT-G-07-03 is approved. The Company's approved WACOG is hereby reduced from $0.68500 per therm to $0.63583 per therm. Intermountain Gas is hereby authorized to pass through its proposed adjustments, surcharges, and credits to customers as filed. The tariff sheets filed with the Company's Application are hereby approved, to be effective October 1, 2007.

IT IS FURTHER ORDERED that Intermountain Gas continue to file quarterly WACOG projections and monthly deferred-costs reports with the Commission.

IT IS FURTHER ORDERED that the Commission specifically reserves the right to reopen any approved tariffs and adjust rates should the pipeline rate increases be less than what the Company has included in the Application. The Commission also specifically reserves the right to reopen this case and reevaluate any approved tariffs if the WACOG materially changes below that included in the Application.

THIS IS A FINAL ORDER. Any person interested in this Order 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. 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 26th day of September 2007.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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