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IDAHO PUBLIC
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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 (2007 PURCHASED GAS COST ADJUSTMENT)

CASE NO. INT-G-07-3

COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission, by and through it Attorney of Record, Donovan E. Walker, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure issued on August 22, 2007, Order No. 30413, submits the following comments.

BACKGROUND

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 decreased as a result of the proposed changes in prices and revenues. Application at 2.

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 Intermountain's Weighted Average Cost of Gas (WACOG); (5) an updated customer allocation of gas related costs pursuant to the Company's 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, 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 were weighted to reflect 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 take-away 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, 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 8, 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 $3.4 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 cost 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 credit of $1.5 million attributable to variable gas costs since October 1, 2007. Application at 8-9. Intermountain proposes to pass back the balances via the per-therm credit. Application at 9, Exhibit 9, L. 4, Column (b), Exhibit 6, L. 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 since 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 the 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.*

STAFF ANALYSIS

Staff has calculated the impact of the Company's proposal on its customer classes as follows:

Customer Class	Proposed Change in Class Revenue	Proposed Average Change in $/Therm	Proposed Average % Change	Proposed Average Price $/Therm
RS-1 Residential	-3,028,343	-0.09084	-7.45%	1.12846
RS-2 Residential	-14,137,918	-0.08913	-8.10%	1.01072
GS-1 General Service	-8,794,625	-0.09057	-8.66%	0.95480
LV-1 Large Volume	-216,892	-0.08685	-10.22%	0.76284
T-1 Transportation	453,590	0.01811	18.16%	0.11786
T-2 Transportation (Demand)	-7,183	-0.01087	-1.10%	0.97694
T-2 Transportation (Commodity)	65,070	0.00357	73.46%	0.00841
T-3 Transportation	121,346	0.00191	10.74%	0.01969
T-4 Transportation	190,157	0.00191	4.44%	0.04498
	-25,354,798	-0.05092	-7.74%	0.60660

The overall effect of the proposed changes in the Company's Application would decrease the revenue received by Intermountain Gas Company by $25,354,798. The net decrease is comprised of the following items:

Deferrals:		
Removal of INT-G-06-04 Temporaries	$ (7,523,989)	
INT-G-07-03 Temporaries	(8,798,839)	
Total Deferrals		$ (16,322,828)
Lost and Unaccounted for Gas		1,599,779
Re-allocation of Fixed Costs		(1,071,141)
Changes in Weighted Average Cost of Gas		(14,137,174)
Fixed Cost Changes:		
Northwest Pipeline	$ (961,347)	
Upstream Price Changes	1,425,811	
New Upstream Capacity Costs	2,694,948	
New LS Storage Costs	1,723,097	
AECO & Clay Basin Cost Changes	(305,943)	
Total Fixed Cost Changes		$ 4,576,566
Total Annual Price Change		**$ (25,354,798)**

Staff has 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. Intermountain Gas has included the elimination of the temporary credits in the amount of $7,523,989, pursuant to last year's PGA, Case No. INT-G-06-04. The temporary credits proposed for the current PGA case equal $8,798,839 which consist of market segmentation and capacity release revenues, interest, and the per therm amortization of deferrals and over collections from last year's PGA, including $1.4 million credit in variable costs from truing up last year's WACOG to actual commodity costs throughout the year. The Company includes a fixed-cost collection adjustment that credits $1,071,141 back to customers 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. During the course of the review, Staff made additional findings that are discussed in more detail below.

Weighted Average Cost of Gas (WACOG)

In the current Application, Intermountain Gas is proposing a WACOG of $0.63583 per therm, which is a decrease of approximately 7.18% from the $0.68500 WACOG currently included in the Company's rates. The current WACOG was approved last year by Order No. 30137 and has been in effect since October 1, 2006. Though the request would be the second decrease in as many years, the chart below illustrates the increases in the natural gas market over the past ten years and the volatility experienced over the same time:

Year	WACOG	Percentage Increase/(Decrease) From Prior Year
1998	$0.15684	n/a
1999	$0.18252	16.37%
2000	$0.42296	131.73%
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%
2006	$0.68500	-6.45%
2007	$0.63583	-7.18%

Last year's WACOG of $0.68500 per therm was based on forward gas prices for the Company's supply sources as of the date of the Company's 2006 amended PGA filing. While actual gas prices varied greatly throughout the year, the WACOG estimates were fairly reflective of prices that Intermountain Gas paid for gas throughout the year. The result was a nominal over-collection of the Company's variable costs, which will be returned to customers through credits over the next twelve 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, 2006 to the purchases that are yet to be made. The Company has taken the aggressive stance that they can deliver the natural gas yet to be purchased for a lower price than the forward prices indicate. Given that all natural gas needed for Intermountain's storage has already been purchased at favorable prices, that the resulting affect of the Company's aggressive forward purchasing plan on the WACOG is small and that any difference will be deferred and collected in customer rates next year, Staff believes that the deviation from use of the NYMEX pricing is acceptable in this case.

Staff has also reviewed the established WACOG of other northwest gas utilities, and the proposed WACOG for Intermountain Gas is considerably less than other utilities in the region. Much of the disparity can be attributed to Intermountain's reliance on a significant portion of its gas supplies coming from the Rockies. Production in the Rockies has increased significantly in recent years, far outpacing the ability to transport the additional gas to markets in the east. As additional pipelines are built to transport Rockies' gas to the eastern metropolitan markets, the price of gas coming out of the Rockies will likely increase to the price levels in effect at other sources.

Intermountain is also able to support a lower WACOG because of the significant amount of storage rights it possesses. Intermountain has over 120 million therms injected into storage, not including an additional 17 million therms of liquefied natural gas, 11 million of which were added during the year at an additional cost of $1.7 million. The gas is injected into storage during the summer months when prices are lower, and withdrawn during the winter months providing customers with substantial savings. Intermountain's storage capacity is approximately 55% of its November through March winter load, making it less dependent on spot market purchases during the volatile winter months and thus decreasing its WACOG in the process.

Pipeline Transportation Rate Cases

On June 30, 2006, Northwest Pipeline Corporation (NPC) filed a general rate case with the Federal Energy Regulatory Commission (FERC). The FERC suspended the effective date of NPC's proposed rates until January 1, 2007, subject to refund and the outcome of the final FERC Order in the case. The transportation costs approved in last year's PGA filing, Case No. INT-G-06-04, were weighted to reflect the increase effective on January 1, 2007. Subsequent to Commission Order No. 30137 establishing rates for Intermountain Gas customers, NPC and other interested parties filed a settlement to resolve all outstanding issues in the NPC general rate case, resulting in a rate reduction as compared to NPC's original filing. On March 30, 2007, the FERC issued an Order approving the settlement effective April 1, 2007. In the current filing, Intermountain proposes to pass the benefits from the NPC transportation rate reduction and refunds back to customers and incorporate the benefits of these lower rates by including the annualized level of transportation costs from Northwest Pipeline Corporation. The benefits received by customers from the settlement are approximately $970,000.

On the same day that Northwest Pipeline Corporation filed its general rate case with the FERC, Gas Transmission Northwest (GTN) also applied for a transportation rate increase. The FERC also suspended the effective date of the GTN increase, subject to refund and the outcome of a hearing. Consistent with its treatment of NPC rates, Intermountain used a weighting methodology that would reflect the GTN rate increase as being in effect for only nine months of the PGA year. The outcome of the GTN General Rate Case proceeding is still pending before the FERC. Intermountain is proposing with this Application to incorporate the annualization, or 12-month application, of GTN's filed case, which increases Intermountain's annual revenue by $1,425,811. Staff believes the Company's treatment of the pending GTN transportation rate increase is consistent and reasonable given the uncertainty of the timing and amount of increase to be granted by FERC Order. However, in the likely event that the FERC approves an increase less than that proposed by GTN, Staff believes any and all refunds should be credited back to Intermountain's customers.

TransCanada's British Columbia, also known as Foothills Pipeline System (Foothills) and its Alberta system, also known as Nova Gas Transmission (Nova) both implemented price increases during 2007. The Foothills increase relates to the assignment of its former Alberta Natural Gas assets to its parallel Foothills system while the Nova increase largely relates to the expiration of temporary credits passed back to customers during 2006. Intermountain acquired additional capacity on these Canadian pipelines after an annual adequacy review of its interstate transportation and storage services dictated a need to procure additional upstream capacity in order to more closely align deliveries from those upstream pipelines with Intermountain's take-away rights on Northwest Pipeline at its Stanfield interconnect with GTN. The additional upstream capacity costs add $2,694,948 to the Company's revenue during the PGA year.

Staff recommends that, in the event that the FERC approve a rate increase for GTN that is significantly lower than that proposed in the Intermountain tariffs, the Commission reserve the right to reopen this case and reevaluate the approved tariffs that result from this proceeding.

Recovery of Lost and Unaccounted For Gas

Intermountain Gas requests the recovery of its estimated lost and unaccounted for gas for the 2007-2008 PGA year through a per therm surcharge, netting the Company an additional $1.6 million. Lost and unaccounted for gas is simply the difference between the physical inputs and the physical outputs of the system. The Company's base rates established in 1985 allowed the Company to recover a normalized level for lost and unaccounted for gas. However, the commodity costs have increased significantly since that time, and Intermountain believes that the level of recovery is no longer sufficient to cover the actual levels of lost and unaccounted for gas on today's system.

The causes for unaccounted for gas can be grouped into two main categories; leaks and measurement. Leaks are defined as gas escaping from the system at a given rate at an unknown location. The rate of gas loss is dependent on the pressure and the size of the hole. Normally, gas leakage will occur at a fairly constant rate and then gradually increase with time if not located and repaired. Gas measurement is defined as the accounting of all gas bought and sold, and is often times a significant source of unaccounted for gas.

Gas measurement can be effected by several factors, such as ambient temperature, pressure, theft, inaccurate or faulty meters and human error while reading or maintaining meters, among many other things. As a general rule, for every 5 degrees above or below the temperature at which the gas was purchased, the volume will change by approximately 1 percent. Gas is generally purchased at 4-oz. pressure, and with every 2-oz. change in pressure, there is also an expected loss of 1 percent. Untimely detection and repair of faulty meters and the element of human error will also cause upward pressure on the amount of unaccounted for gas. Though Staff believes that the Company is entitled to recovery of some level of unaccounted for gas, Staff is hesitant to recommend the recovery in the PGA, when many factors affecting the level of unaccounted for gas are within the Company's control. It should be noted that Intermountain's rate of lost and unaccounted for gas is 0.7 percent of throughput. The industry average is approximately 2 percent, which would indicate that Intermountain is adequately monitoring and maintaining its system to minimize the amount of lost and unaccounted for gas.

The normalized level of revenue collected by Intermountain in its current base rates for unaccounted for gas is $445,905. As stated, this amount was established in 1985. Adjusted for growth, the normalized level is $934,721, as illustrated on Workpaper No. 8 included with the Company's Application. Intermountain is requesting to recover the estimated amount of lost and unaccounted for gas over today's normalized level adjusted for growth, an additional $1.6 million. If the Company decreases its level of unaccounted for gas during the coming PGA year, the Company will credit the difference back to customers in next year's PGA filing.

Staff recommends that the Commission allow the Company to recover the additional amounts for lost and unaccounted for gas in the PGA, as is common with other gas utilities in the northwest and across the nation. However, approval of the proposal should not guarantee the Company recovery of all lost and unaccounted for gas regardless of circumstances. If the system were to experience a catastrophic failure, Staff would expect the Company to file for an accounting order authorizing it to defer the costs of the repair and lost gas, with recovery to be determined at a later date. Staff also does not believe it to be appropriate for unaccounted for gas or losses due to faulty meters and meter reading errors to be included in PGA rates. Staff will again review the actual levels of unaccounted for gas during next year's PGA audit to determine the appropriateness of the recovery.

Risk Management and Gas Purchasing

The objectives of Intermountain Gas Company's Gas Supply Risk Management 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. The Company and Staff continue to evaluate the risk management guidelines within the "Gas Supply Risk Management Program" to manage the risk and price volatility to customers. The Company's documentation of its market evaluations and market fundamentals continues to improve. The market expertise and experience of the Company and its purchasing agent are extensive and they will provide the background to evaluate the current guidelines and expand the Gas Supply Risk Management Program as the Company and Staff continue to evaluate this topic.

The Company's contracts for physical gas supplies are typically based on the first-of-month index price. As part of the short-term hedging strategy, the Company has the opportunity to convert the first-of-month price to daily pricing. This decision is based on the market fundamentals reviewed by the Gas Management Committee when the daily pricing is expected to decrease during the month. Additional financial hedge opportunities are also evaluated with the same process.

As indicated by the Company's Risk Management Program, Intermountain Gas does not acquire financial hedges to obtain the lowest possible price, but rather to mitigate the volatility in the natural gas markets by hedging in comparison to the WACOG. During the 2006-2007 PGA year, the Company executed numerous financial hedges by locking in specific prices for gas. Though spot prices actually dropped below the hedge prices, the Company's hedging practices were successful as they were able to beat the WACOG and return nearly $1.5 million to customers in the coming year.

Intermountain Gas also physically hedges the price of gas with its abundance of storage capacity, as previously mentioned. Currently the storage is at maximum capacity with injections already completed this summer to serve the coming winter load. Intermountain locked in the price of the gas injected into storage, and had to make cash settlements in the amount of $5.8 million on those hedges, but that number is misleading as the benefit from those hedges will not be seen until the gas is actually withdrawn. The average price of the gas in storage is $0.4965 per therm as compared to the requested WACOG of $0.63583 per therm. As gas is withdrawn from storage, customers will recognize the benefits of the hedge in next years PGA filing.

In addition to the storage hedge to provide supply and price stability for the 2007-2008 PGA year, the Company also hedges winter flowing gas requirements based on normal winter weather projections. This strategy will lock the price of 90% of the expected winter needs with multiple financial gas contracts from the three supply basins of Sumas, Rockies and AECO.

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 16, 2007. 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 17, 2007 and ending September 14, 2007.

Customer Comments

Customers were given until September 18, 2007 to file comments. As of September 17, no comments had been received.

Financial Assistance for Paying Heating Bills

If approved, residential customers will see an approximate 8% decrease in their natural gas rates. However, energy costs continue to challenge some customers. Because some customers still struggle to pay their gas bills, Staff would like to remind qualified customers to take advantage of the energy assistance available through 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. For more information on these programs, customers may call the nearest Community Action Agency, Intermountain Gas Company, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

RECOMMENDATION

After a complete examination of the Company's Application and gas procurements for the year, Staff recommends the following:

1) That the Commission accepts the Company's Application and filed tariffs reducing the Company's annual revenue by $25,354,798.
2) That the Commission reserve the right to reopen this case and reevaluate any approved tariffs as a result of pipeline transportation increases being significantly less than what the Company included in the Application.

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.

Respectfully submitted this 18th day of September 2007.

Donovan E. Walker
Deputy Attorney General

Technical Staff: Donn English
Marilyn Parker

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18TH DAY OF SEPTEMBER 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-07-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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