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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CANCEL ITS EXISTING T-1 AND T-2 TRANSPORTATION TARIFFS AND IMPLEMENT A T-5 TARIFF.

CASE NO. INT-G-08-1

COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, in response to the Notice of Application (Order No. 30562) and Notice of Modified Procedure (Order No. 30586) submit the following comments.

BACKGROUND

Intermountain Gas Company (IGC) currently uses its company owned distribution pipelines and capacity on Northwest Pipeline, an interstate gas transportation provider, to transport natural gas purchased independently by its industrial customers. These services are outlined within a menu of industrial transportation tariff arrangements and rate schedules which provide several options for customers depending on their business structure and consumption patterns. Under all of the current tariffs the customer purchases gas supply either independently or from a third party marketer and has transportation from IGC's "city gate" locations to the place of service on IGC's distribution pipelines. The tariffs differ in whether the price structure includes (1) interruptible or firm IGC distribution, (2) a specified maximum daily firm quantity ("MDFQ"), or (3) embedded Northwest Pipeline transportation capacity.

Interruptible IGC distribution serves customers who are willing to consume an interruptible schedule of gas. This service is typically associated with industrial users who consume more in the summer time and are willing to forego firm IGC distribution during the winter. Maximum daily firm quantity ("MDFQ") is a phrase used to describe customers who contractually specify the maximum amount of gas they will consume daily. In exchange for committing to a contractual maximum daily firm quantity, the MDFQ customer pays one demand charge per month and receives a lower commodity charge than customers unwilling to specify a maximum daily firm quantity. This non-volumetric rate structure is most beneficial to customers operating at a high load factor.

Prior to describing an embedded Northwest Pipeline transportation capacity cost structure it is important to understand capacity and how the pipeline industry is structured. Northwest Pipeline is a primary artery for the transmission of natural gas to the Pacific Northwest and Intermountain Region. What began as a 1,500-mile pipeline is now a 3,900-mile bi-directional transmission system crossing the states of Washington, Oregon, Idaho, Wyoming, Utah and Colorado. Northwest's bi-directional system provides access to British Columbia, Alberta, Rocky Mountain and San Juan Basin gas supplies. Northwest Pipeline charges local distribution companies (LDC) like IGC and natural gas marketers a reservation charge for the reserved space on the pipeline, and a volumetric charge for the therms transported. This capacity is used for transporting gas from the supply basin to IGC's "city gate", i.e., the receipt point at which IGC's company owned distribution pipelines adjoin Northwest's pipeline. Once the gas reaches this location it is transported on IGC's company owned distribution pipelines to the end user. Thus, embedded Northwest Pipeline transportation capacity refers to tariffs where the reservation and volumetric charge incurred by IGC from Northwest Pipeline for IGC's "city gate" delivery is included or embedded within the tariff rates.

The current tariff structures are outlined below according to the services they provide, aside from the transportation service on IGC's company owned distribution pipelines, which all tariffs provide. Below is a service summary utilizing the terms defined above.

1) <u>T-1 Tariff Includes:</u> – Firm IGC distribution, no specified maximum daily firm quantity ("MDFQ"), embedded Northwest Pipeline transportation capacity included in rates.

2) <u>T-2 Tariff Includes:</u> – Firm IGC distribution, specified maximum daily firm quantity ("MDFQ"), embedded Northwest Pipeline transportation capacity included in rates.

3) <u>T-3 Tariff Includes:</u> – Interruptible IGC distribution, no specified maximum daily firm quantity ("MDFQ"), no embedded Northwest Pipeline transportation capacity included in rates.

4) <u>T-4 Tariff Includes:</u> – Firm IGC distribution, no specified maximum daily firm quantity ("MDFQ"), no embedded Northwest Pipeline transportation capacity included in rates.

Proposal

On May 7, 2008, IGC requested authority, pursuant to Idaho Code § 61-307, to discontinue and cancel its existing T-1 and T-2 transportation tariffs. IGC also requested authority, pursuant to Idaho Code § 61-307, to place into effect a new industrial transportation tariff (T-5 Tariff). Both requests are made pursuant to the Rules of Procedure of the Idaho Public Utilities Commission ("Commission").

The Company asserts that it is necessary to cancel the T-1 and T-2 tariffs and implement the new T-5 tariff to comply with the applicable rules and regulations pertaining to Northwest Pipeline's interstate pipeline system. Northwest's Federal Energy Regulatory Commission (FERC) gas tariff requires that a shipper have sole title to the natural gas transported on Northwest's system. The shipper must have concurrent title to both the gas molecule as well as the interstate transportation rights transporting that same gas molecule. IGC maintains that there are two fundamental attributes of its T-1 and T-2 tariffs at odds with Northwest's regulation requirement: (1) the Company's T-1 and T-2 tariffs are for transportation services including compensation for the Company's firm capacity on Northwest's system; and (2) the tariffs require that customers procure their own supply of natural gas from a third-party marketer.

Concurrent with the elimination of its T- l and T-2 tariffs, IGC intends to offer each T-l and T-2 customer the opportunity to choose from the menu of remaining industrial transportation services; specifically those services as offered under the Company's T-3 and T-4 tariffs, and, if approved by the Commission, the proposed T-5 tariff. In order to help facilitate a customer's option to elect the T-4 tariff, the Company seeks Commission approval to waive the T-4 tariff's Exit Fee provision.

According to its Application, T-1 customers have the option of selecting a version of the T-1 tariff without embedded interstate transportation costs provided through the T-4 tariff. T-2 tariff customers have no equivalent tariff option with the same benefits of a maximum daily firm quantity and without embedded interstate transportation costs. Therefore, the proposed T-5 rate schedule is a version of the Company's T-2 tariff. IGC asserts that in combination with the capacity releases provide to T-1 and T-2 customers, the T-5 customer's burner-tip price "should be economically equivalent" to that provided under the bundled T-2 service.

Prior to this Application, IGC has been taking action in an effort to comply with Northwest's FERC Gas Tariff; more specifically they've contractually agreed beyond the scope of the tariffs on releasing interstate transportation capacity to pre-arranged marketer parties who supply gas to those existing T-1 and T-2 customers. However, IGC feels that given the evolving dynamics of the interstate natural gas market, as additional marketers compete for business on IGC's distribution system, the likelihood that these concurrent commodity and transportation titles will become severed is greatly intensified thereby subjecting IGC to be out of compliance with FERC regulations if the T-1 and T-2 tariffs continue to be utilized.

STAFF ANALYSIS

In Staff's review of IGC's proposal, three primary factors were analyzed:

1) IGC's obligations with respect to the GENERAL TERMS AND CONDITIONS of Northwest's FERC Gas Tariff.
2) IGC's proposal to meet its obligation under Northwest's FERC Gas Tariff.
3) The impact of IGC's rate proposal for its existing T-1 and T-2 customers.

IGC's Obligations with respect to FERC

Staff reviewed IGC's obligations with regards to Section 8 of Northwest's FERC Gas Tariff, GENERAL TERMS AND CONDITIONS, Fourth Revised Sheet No. 215 ("TITLE TO GAS") sub paragraph 8.1 ("Warranty of Title"). Specifically, Staff analyzed the relationship of IGC and Northwest Pipeline according to Section 8, which reads in pertinent part:

> Transporter accepts Shipper's gas at the Receipt Point(s) subject to the understanding that Shipper warrants that it will at the time of delivery of gas to Transporter for transportation, have good title to all gas so delivered to Transporter.

Because the IGC T-1 and T-2 transportation tariffs require the customer to procure its own gas supply, and also include an allocated portion of IGC transportation cost, the tariffs are at risk of noncompliance, without modification, with FERC Gas Transportation regulations. Currently, to assure compliance, the Company behaves as a transport capacity marketer by releasing its pipeline capacity through contractual agreements with marketers supplying gas to IGC's industrial customers served under the IGC tariffs.

Staff recognized IGC's concern regarding compliance with FERC regulations and the Company's increasingly complicated contractual arrangements implemented to assure FERC compliance with the T-1 and T-2 tariffs in place. The simpler solution appears to be to eliminate embedded IGC transportation costs from its industrial transport tariffs. That is effectively what IGC proposes to do. Based on its analysis, Staff finds it reasonable for IGC to seek modification of its tariffs to ensure compliance.

Staff also acknowledges that without the T-2 tariff, customers who specify a maximum daily firm quantity will need an option where interstate transportation is not embedded. Therefore, the Company has proposed, and Staff has no objection to, the T-5 tariff where pipeline transport cost is not embedded in rates and the customer remains responsible for procuring gas supply.

Rate Design

In reviewing the transitional changes associated with existing T-1 and T-2 customers migrating toward the T-4 and proposed T-5 tariffs, the only difference Staff found, and therefore analyzed for rate changes was how the customer receives interstate transportation capacity. Instead of having this provided by IGC within the tariff's price structure, IGC will accommodate the customers' ability to procure gas by turning over interstate transportation capacity on Northwest Pipeline to the customer or the customer's marketing agent, subject to recall. Upon communication with the Company, Staff was assured IGC will provide customers with the same allocated receipt point proportion as was permissible previously under the T-1 and T-2 tariffs.

Therefore, if the customer demands excess capacity from a Northwest Pipeline receipt point beyond what IGC is willing to release, it is the responsibility of the customer to purchase this on the open market from marketers.

When evaluating the Company's rate design proposal, Staff compared the most logical tariff transition for customers. The generalization was made that although customers can select from a menu of remaining options included as T-3, T-4, and T-5, it is unlikely customers will change their business structure and consumption pattern in order to meet the interruptible T-3 standards. Therefore, in analyzing the rate design of the T-5 proposed tariff Staff compared the T-2 rate design and monetary implications of tariff changes. When analyzing the impact to T-1 customers we focused on the T-4 block breaks and rates to compare the monetary implications of tariff changes.

Upon reviewing the T-5 rate structure methodology shown on Workpaper No. 1 of IGC's Application, Staff acknowledges the removal of all the interstate transportation related costs upstream of IGC's distribution system that were approved in the Company's annual PGA Application for the T-2 tariff per Case No. INT-G-07-03. Removing the cost of these items no longer provided to the industrial users will insure the price structure of the proposed T-5 tariff is economically equivalent. Staff has analyzed the variance in rate structures given the interstate transportation costs incurred with the discontinued service of the T-1 and T-2 tariffs. According to the reservation and volumetric rate on the FERC Gas Tariff Northwest Pipelines Statement of Rates there is no incremental burner tip price increase to IGC's customers aside from the T-4 tariff Block Three volumetric rate. Although there was an increase within this block compared to the T-1 tariff, the Company has assured Staff that no customers reach this Block Three of 750,000 therms.

Service Impacts

Staff has reviewed IGC's proposal to eliminate the T-1 and T-2 tariffs, and more specifically analyzed how the tariff changes may hinder the quality of service for the current twenty-four T-1, and sixteen T-2 customers. Although customers have the option to select from a menu of the tariffs included as T-3, T-4, and proposed T-5 as stated previously, it is unlikely customers will change their business structure and consumption pattern in order to meet the interruptible T-3 standards. Therefore, in Staff's analysis of the transfer impacts we have assumed T-1 customers will migrate to the existing T-4 tariff while the T-2 customers will migrate to the proposed T-5 tariff.

Staff agrees with IGC's proposal to waive the T-4 tariff's Exit Fee provision in order to help facilitate a customer's option to elect the T-4 tariff. However, despite the Company's assurance of a smooth transfer, we remain concerned that current industrial customers will not have a seamless migration from the proposed cancelled tariffs. Particular areas of concern are the "true up" conditions associated with the existing tariffs designated under "Service Conditions" or "Billing Adjustments" which could potentially act as Exit Fees. As this process unfolds, Staff recommends that the Company provide a smooth transition for these "true up" conditions to ensure that the industrial customer is not held responsible for their current tariff's elimination.

Summary

Staff has reviewed the background of IGC's transportation tariffs within the context of IGC's distribution pipelines, Northwest Pipelines Interstate pipelines, and the FERC regulations associated with gas molecule transportation. Staff has also evaluated IGC's proposal to eliminate the T-1 and T-2 tariffs while offering the proposed T-5 tariff option. In analyzing how necessary the termination of the T-1 and T-2 tariffs are to meet IGC's obligations with regards to FERC, Staff acknowledges that it is reasonable for IGC to seek modifications to its tariffs to ensure compliance with FERC regulations. Through the review of how customers' service will be impacted, Staff remains concerned about the transition from the eliminated T-1 and T-2 tariffs to remaining tariffs and the new T-5 tariff. It is important that the Company have a clear transition plan where the customers are openly informed and not penalized for the termination of their tariff. Upon reviewing the potential rate impacts that could occur given the most likely tariff transition for customers, Staff found one rate increase in Block Three of the T-4 tariff when compared to the T-1 tariff. However, it is Staff's understanding that no customers reach this Block Three volumetric rate, therefore customers will not be impacted by this increase.

RECOMMENDATION

Staff recommends the following:

(1) That the Commission adopt the Company's Application to discontinue its T-1 and T-2 transportation tariffs;

(2) That the Commission approve the implementation of the T-5 tariff offered as an alternative for IGC's current industrial customers;

(3) That the Commission allow for waiver of the T-4 Exit Fee in order to facilitate a customer's option to elect the T-4 tariff; and

(4) That the Commission require IGC to monitor the transition to prevent termination penalties from being charged due to the T-1 and T-2 tariff elimination.

Respectfully submitted this 11TH day of July 2008.

Kristine A. Sasser

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Deputy Attorney General

Technical Staff: Matt Elam

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF JULY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-08-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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