Office of the Secretary
Service Date
September 30, 2008

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2008 PURCHASED GAS COST ADJUSTMENT)	**CASE NO. INT-G-08-03** **ORDER NO. 30649**

On August 15, 2008, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to increase its annualized revenues by $54.3 million. Application at 2. The PGA mechanism is used to adjust rates to reflect annual changes in Intermountain's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs. *See* Order No. 26019. Intermountain contends that its earnings will not be increased as a result of the proposed changes in prices and revenues.

On September 3, 2008, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 30634. The deadline for written comments was set for September 25, 2008. Comments were filed by Commission Staff, Northwest Industrial Gas Users, and numerous customers. After reviewing the record and comments in this case, the Commission approves the Company's Application as more fully set forth below.

THE 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 Gas Transmission Northwest Corporation ("Gas Transmission Northwest" or "GTN"); (2) the procurement of discounted interstate transportation on Northwest Pipeline GP ("Northwest" or "Northwest Pipeline"); (3) benefits included in Intermountain's firm transportation and storage costs resulting from Intermountain's management of its storage and firm capacity rights on pipeline systems including Northwest Pipeline, GTN and TransCanada's BC system; (4) an increase in Intermountain's Weighted Average Cost of Gas, or "WACOG"; (5) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment provision; and (6) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from Intermountain's deferred gas cost accounts. Application at 3-4.

The Company calculates that if its Application is approved, residential customers using natural gas for space heating alone could experience a \$7.90 increase on their monthly bill (15% increase per therm). Residential customers using natural gas for both space and water heating could experience an increase of \$12.30 on an average monthly bill (18% increase per therm). Commercial customers could realize a \$55.30 increase in monthly billing (18% increase per therm).

Intermountain Gas proposes increasing its WACOG from the currently approved \$0.63583 per therm to \$0.78484 per therm. The Application states that worldwide demand for energy, coupled with constraints on production, has driven the price of all energy to record highs. The Company maintains that its proposed WACOG includes the benefits to Intermountain's customers generated by the Company's management of significant natural gas storage assets. More specifically, the Company procures natural gas during the summer season for withdrawal and use during the winter when prices would normally otherwise be higher. Additionally, the Application states that, in an effort to further stabilize the prices paid by customers during the upcoming winter season, Intermountain has entered into various hedging agreements to lock-in the price for significant portions of its underground storage and other winter "flowing" supplies. Application at 6. Although current commodity futures prices dictate the use of a \$0.78484 per therm WACOG, the Company continues to remain vigilant in monitoring natural gas prices. If forward prices for natural gas materially deviate from \$0.78484 per therm, the Company is committed to return to the Commission prior to this winter's heating season to amend these proposed rates.

Pursuant to Order No. 30443, Intermountain included temporary surcharges and credits in its PGA rates last October. Exhibit No. 4, line 26 reflects the elimination of these temporary surcharges and credits. The Company includes a fixed-cost collection adjustment pursuant to the provisions of its PGA tariff which provides that proposed rates will be adjusted for updated customer class sales volumes and purchased gas cost allocations. Application at 7. Intermountain proposes to pass back to its customers the benefits generated from the management of its transportation capacity totaling over \$9 million. *Id.*, Exhibit No. 7. Further, the Company proposes to allocate deferred gas costs from its Account No. 186 balance to its customers through temporary price adjustments to be effective during the 12-month period ending September 30, 2009, as follows: (1) fixed gas costs credit of \$8.5 million attributable to the collection of interstate pipeline capacity costs, the true-up of expense issues previously ruled on by the Commission, refunds attributable to the Settlement of GTN's General Rate Case and mitigating capacity release credits from Intermountain's upstream capacity; and (2) deferred gas cost debits of $18 million attributable to variable gas costs since October 1, 2007. Application at 8. Intermountain proposes to collect the balances via a per therm surcharge and credit. *Id.*

Intermountain states that a cents-per-therm price increase was not utilized for the LV-1 tariff. The proposed increase is fixed-cost related and, because there are no fixed costs recovered in the tail block of the LV-1 tariff, a cent-per-therm increase relating to fixed costs was made only to the first two blocks of the LV-1 tariff. Each block of the proposed T-3 and T-4 tariffs includes a uniform cents-per-therm increase for unaccounted-for gas recovery. *Id.* Additionally, these industrial tariffs were updated to reflect the elimination of the T-1 and T-2 tariffs.[1] Order No. 30599.

The proposed increase to the T-5 Tariff Demand Charge is fixed-cost related and reflects the removal of a fixed-cost temporary credit currently included in the T-5 Demand Charge. Also, the T-5 Commodity Charge includes a uniform cents-per-therm increase for unaccounted-for gas recovery. Application at 9.

Intermountain maintains that customers have been notified regarding Intermountain's Application through a customer notice and press release. *Id.* Intermountain states that the proposed overall price changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to Intermountain's customers. The Company requested an effective date of October 1, 2008.

THE COMMENTS

A. Staff Comments

Staff reviewed the Company's Application and gas purchases for the year to verify the Company's earnings will not change as a result of the filing, to verify the deferred costs are prudent, and to determine the reasonableness of the WACOG request. The overall effect of the proposed changes in the Company's Application would increase the annual revenue received by Intermountain Gas Company by $54,330,257.

[1] Intermountain Gas currently offers four industrial tariff options: LV-1 – Large Volume Firm Sales Service; T-3 – Interruptible Distribution Transportation Service; T-4 – Firm Distribution Only Transportation Service; and T-5 – Firm Distribution Service with Maximum Daily Demand.

Weighted Average Cost of Gas (WACOG)

In the current Application, Intermountain Gas is proposing a WACOG of $0.78484 per therm, which is an increase of approximately 23.43% from the $0.63583 WACOG currently included in the Company's rates. The current WACOG (approved last year by Order No. 30443 in Case No. INT-G-07-03) has been in effect since October 1, 2007.

When reviewing the Company's forecasted natural gas prices through September 2009 and the proposed WACOG of $0.78484, Staff utilized several forecasting tools including the NYMEX Futures Index, the Global Insights Forecast, and the Energy Information Administration's (EIA) outlook. When comparing these information sources to the forward prices indicated by Intermountain, the Company appears slightly optimistic but has predicted reasonable estimates. The fragility of current economic conditions, the addition of an extended pipeline to the east, and the near-term impacts of hurricane disruptions may add upward pressure to prices. September has historically been the peak month for hurricane activity which often times sets the tone for Gulf Coast production and volatility to the market. However, Intermountain's optimism is understandable based on the following factors: (1) production declines attributable to Gulf Coast storms are expected to contribute only to short-run price increases; (2) growth in onshore natural gas production continues to increase; 3) winter temperatures are forecasted to be warmer than normal; (4) industry demand by the industrial sector is expected to decline; and (5) the Company's extensive storage allows it to hedge prices. It is also understandable that given the current economic conditions forecasting is difficult as evidenced by significant variations in future prices even among companies specializing in natural gas predictions. Staff also reviewed the established WACOG of other northwest gas utilities, and with the exception of Puget Sound Energy, the proposed WACOG for Intermountain Gas is less than other utilities in the region.

Although current commodity futures prices support the use of a $0.78484 per therm WACOG, the Company should remain vigilant in monitoring natural gas prices and work toward favorably purchasing the remaining 43.4% of unlocked necessary winter flowing gas supplies. Although 56.5% of the Company's expected winter flowing supplies have been purchased, if forward prices for the remaining natural gas purchases materially deviate from $0.78484 per therm, Staff recommended that the Company return to the Commission prior to this winter's heating season to amend these proposed rates.

Pipeline Transportation Rate Cases

On June 30, 2006, GTN filed a general system rate case with the Federal Energy Regulatory Commission (FERC) in Docket No. RP06-407-000. FERC suspended the effective date of GTN's proposed rates until January 1, 2007, subject to refund and the outcome of the FERC hearing. Intermountain's prices, as approved in Case No. INT-G-07-03, remain currently reflective of GTN's proposed January 1, 2007 prices. The outcome of GTN's General Rate Case is now final; this has resulted in FERC allowing GTN lower shipper prices than originally proposed. This lower price first became effective November 1, 2007 and was revised effective January 1, 2008. Therefore, Intermountain proposes with this Application to incorporate the lower prices and credit customers with the amount that has been over-collected.

Recovery of Lost and Unaccounted-for Gas

Intermountain Gas requests the recovery of Lost and Unaccounted-for Gas (L&U) through a per therm surcharge. The PGA surcharge request reflects L&U amounts above those which are included in base rates as approved by the Commission in 1985. In the 2007-2008 PGA, the surcharge for L&U was $1.6 million of the total $2.5 million. However, in the 2008-2009 PGA the Company has requested an L&U surcharge increase of 27%, or $2 million above base rates for a total L&U of $3 million. This year the Company has alleged an increase in L&U to .85% of throughput, a 19% increase over the 2007-2008 PGA. Staff recognized that the percentage of L&U gas is dependent on the complexity of a pipeline distribution system and the flow measurement complexities involved. However, there was some concern as to the increase of 19% over the 2007-2008 PGA, despite Intermountain's historically reasonable loss levels.

Intermountain is requesting to recover the difference between the projected total FY08 L&U gas and the normalized level of L&U gas revenue already collected in current base rates. The normalized level of L&U already collected is $1,017,951 while the projected FY08 amount is $3,051,984. Thus, Intermountain is requesting an additional $2,034,033. If the Company decreases its level of lost gas during the coming PGA year, the Company will credit the difference back to customers in next year's PGA filing.

Staff recommended the Commission allow the Company to recover the additional amount for L&U gas in this year's PGA. However, as mentioned in the 2006 Staff Comments, "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." Staff also maintained that losses due to errors in faulty meters or measurement control practices should not be recovered in the PGA. In order to evaluate these losses more closely, Staff recommended the Commission order Intermountain to provide a quarterly report outlining the Company's framework for how it has tested for, identified, and remediated equipment measurement errors or leaks. Additionally, this report should outline the Company's business process for alleviating measurement errors through its financial accounting of nominations, scheduling, measurements, flow volume allocation, and billing. Staff also would like to meet with the Company to outline steps that the Company is taking toward identifying the sources of L&U gas and how these losses may be reduced. Also, because of the significant increase in L&U gas between last year's PGA and this year's PGA, Staff recommended that the Commission place a cap on the amount recovered for L&U gas at 0.85% of throughput, which is the current level proposed for recovery in this case. After the Company has adequately shown its practices to limit the causes of L&U gas and the Company's approach toward reducing it, Staff would then consider recommending removal of the imposed cap.

Energy Affordability Workshops

On September 8, 2008, the Commission initiated a formal generic case (GNR-U-08-01) to examine issues surrounding energy affordability and customers' ability to pay energy bills. These issues will be examined at a series of scheduled workshops within the next few months. Utilities will be directed to participate. Staff recommended that Intermountain Gas actively participate in these workshops and begin formulating ideas as to how its residential customers can be better served currently as well as in the future.

Low-Income Weatherization

Staff also recommended that Intermountain create a low-income weatherization program for the purpose of weatherizing homes of needy residential customers in its service territory. Monies in Idaho Power's and Rocky Mountain Power's weatherization programs cannot be used to weatherize homes that are heated by natural gas.

B. Northwest Industrial Gas Users (NWIGU) Comments

NWIGU raised its initial concerns directly with Intermountain regarding the accounting of debits and credits related to the recent elimination of the Company's T-1 and T-2 tariffs. NWIGU independently reached agreement with Intermountain regarding the treatment of these debits and credits. As a result, NWIGU supports Intermountain's Application.

C. Customer Comments

More than 50 customer comments were received by the Commission. All but one submission opposed the increase in rates. More than half of the comments were from low- and fixed-income customers who were concerned about being able to afford an 18% increase in their natural gas rates.

D. Reply Comments

On September 26, 2008, Intermountain Gas filed reply comments. The Company opposed both a cap and/or additional reporting requirements for the recovery of lost and unaccounted-for (L&U) gas. Intermountain asserted that its levels of L&U gas are enviable within the natural gas distribution industry. The Company further argued that the Commission has previously acknowledged Intermountain's efforts to limit L&U gas and declined to impose a cap in previous cases. As an alternative to reporting, Intermountain invited Commission Staff "to visit with the Company to witness first hand and gain further insight as to the myriad of factors involved in the management and mitigation of the Company's L&U efforts." Reply Comments at 2.

Intermountain also affirmed its intent to participate in the affordability workshops scheduled in October 2008.

DISCUSSION

We have reviewed the record for this case, including the Application and comments. 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 pursuant to Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502, along with 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 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 and delivering 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.

Wholesale natural gas prices fluctuate, and recently have become 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. Despite these efforts, the worldwide demand for energy coupled with constraints on production has driven the price of energy to record levels. Consequently, we find it reasonable to increase the approved WACOG from \$0.63583 per therm to \$0.78484 per therm. When combined with the surcharges, credits, and adjustments approved herein, rates per therm will increase an average of approximately 17.56%.

Within its Application, Intermountain requested the recovery of lost and unaccounted-for gas (L&U) through a per therm surcharge. This year the Company has alleged an increase in L&U to .85% of throughput, a 19% increase over the 2007-2008 PGA. Although metering errors because of temporary gas measurement device failures are inevitable, there have been significant advances in control systems and best measurement practices for quickly identifying these failures. Therefore, we are concerned about the increase of 19%, despite Intermountain's historically reasonable loss levels.

In order to evaluate Intermountain's losses more closely, the Commission finds it appropriate to direct Intermountain to provide a quarterly report outlining the Company's framework for how it has tested for, identified, and remediated equipment measurement errors or leaks. Additionally, this report should outline the Company's business process for alleviating measurement errors through its financial accounting of nominations, scheduling, measurements, flow volume allocation, and billing. Further, Commission Staff is directed to meet with the Company to outline steps that Intermountain is taking toward identifying the source of L&U gas and how these steps may be working toward improvement. Finally, because of the significant increase in L&U gas from last year's PGA to this year's PGA, the Commission hereby places a cap on the amount recovered for L&U gas at 0.85% of throughput, which is the current level proposed for recovery in this case. After the Company has adequately demonstrated its practices to limit the causes of L&U gas and the Company's actions in reducing it, the Commission will consider removal of the L&U gas cap.

There are a variety of factors contributing to significant upward pressure on electric and natural gas rates in Idaho. Energy affordability has become a central issue for many Idaho households and businesses. Customers who are unemployed, have lower incomes, and/or have fixed incomes that fail to keep pace with inflation are disproportionately affected by rising energy costs because they must devote an increasingly larger share of their income to paying for natural gas and electricity. The Commission acknowledges and appreciates Intermountain's intent to actively participate in affordability workshops set as part of Case No. GNR-U-08-01. In addition to its participation in workshops, the Commission directs Intermountain to collaborate with Staff to explore the creation of low-income weatherization programs for residences heated using natural gas. The Company shall report on the results of these efforts on or before March 15, 2009.

ORDER

IT IS HEREBY ORDERED that Intermountain Gas Company's Application is approved. Intermountain is authorized to pass-through its proposed adjustments, surcharges, and credits to customers as filed. The Company's WACOG shall be increased from $0.63583 per therm to $0.78484 per therm. The Company shall file conforming tariffs to be effective October 1, 2008.

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 Intermountain Gas promptly file an Application to amend its WACOG should gas prices materially deviate from the presently approved $0.78484 per therm.

IT IS FURTHER ORDERED that Intermountain Gas be permitted to recover a maximum of 0.85% of its total throughput as lost and unaccounted-for gas. In addition, the Company shall submit to the Commission a quarterly report outlining: (1) the Company's framework for how it has tested for, identified, and remediated equipment measurement errors or leaks; and (2) the business process for alleviating measurement errors through its financial accounting of nominations, scheduling, measurements, flow volume allocation, and billing. Intermountain is directed to work with Commission Staff to outline steps toward identifying the sources of lost and unaccounted-for gas and work toward improvement. The Company's first quarterly report is due no later than 30 days after the calendar quarter ending December 31, 2008.

IT IS FURTHER ORDERED that the Company participate in the Energy Affordability Workshops scheduled in Case No. GNR-U-08-01.

IT IS FURTHER ORDERED that the Company collaborate with Staff to explore the creation of low-income weatherization programs for residences heated using natural gas. The Company shall report on the results of these efforts on or before March 15, 2009.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of 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 and 62-619.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th day of September 2008.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM D. KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secret

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