DECISION MEMORANDUM

TO:	**COMMISSIONER REDFORD** **COMMISSIONER SMITH** **COMMISSIONER KEMPTON** **COMMISSION SECRETARY** **COMMISSION STAFF**
FROM:	**KRISTINE SASSER** **DEPUTY ATTORNEY GENERAL**
DATE:	**AUGUST 28, 2008**
SUBJECT:	**IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S 2008 PGA, CASE NO. INT-G-08-03**

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's earnings will not be increased as a result of the proposed changes in prices and revenues. The Company requests that its Application be processed by Modified Procedure and that its rates become effective on October 1, 2008.

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) 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 the WACOG from the currently approved $0.63583 per therm to $0.78484 per therm. The Application asserts 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 otherwise be higher. Additionally, the Application states that, in an effort to further stabilize the prices paid by customers during the upcoming winter period, 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 straight cents per therm price increase was not utilized for the LV-1 tariff. The proposed increase is fixed cost related and, since 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 include 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 asserts that customers have been notified regarding Intermountain's Application through a customer notice and press release. *Id.* Intermountain states that the proposed overall prices changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to Intermountain's customers. Finally, the Company requests that this matter be handled under Modified Procedure pursuant to Rules 201-204 of the Commission's Rules of Procedure.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with comments due by September 25, 2008.

[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.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure pursuant to Commission Rules 201 through 204 with comments due September 25, 2008?

Kristine A. Sasser

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Deputy Attorney General

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