Office of the Secretary
Service Date
September 29, 2009

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2009 PURCHASED GAS COST ADJUSTMENT)	)	**CASE NO. INT-G-09-02**
	)	**ORDER NO. 30913**

On August 19, 2009, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by $72.4 million. Application at 2. On August 26, 2009, the Commission issued a Notice of Application and Notice of Modified Procedure and set a September 9, 2009, deadline for comments. Eight public comments were received in addition to comments filed by Commission Staff. After reviewing the comments and the record in this case, the Commission approves the Company's Application as more fully set forth below.

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) an increase in costs billed Intermountain due to higher prices charged by Northwest Pipeline GP ("Northwest" or "Northwest Pipeline") offset by a small decline in contract volumes on Northwest; (2) an increase in costs from Intermountain's "upstream" Canadian pipeline suppliers; (3) a decrease in the Company's projected costs relating to its storage contracts; (4) a decrease 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; (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; and (7) 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. Application at 3-4.

Intermountain also seeks with this Application to eliminate the temporary surcharges and credits included in its current prices during the past 12 months, pursuant to Order Nos. 30649 and 30676. The aforementioned changes would result in an overall price decrease to Intermountain's customers.

Intermountain Gas proposes decreasing the WACOG from the currently approved $0.67482 per therm to $0.49600 per therm. The Application maintains that weather-adjusted demand for natural gas has diminished, driven by the downturn in our regional and national economy. At the same time, natural gas supplies are plentiful. This current imbalance between supply and demand has driven down the near term prices for natural gas. Application at 6.

The Company asserts that the proposed WACOG includes the benefits resulting from Intermountain's storage of significant amounts of natural gas procured during the summer season for use during the winter when market prices are normally higher. Additionally, and in an effort to further stabilize 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 $0.49600 per therm WACOG, the Company continues to remain vigilant in monitoring natural gas prices. If forward prices for natural gas materially deviate from $0.49600 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. 30649, Intermountain included temporary surcharges and credits in its October 1, 2008, and November 15, 2008, prices for the principal reason of collecting or passing back to its customers deferred gas cost charges and benefits. Exhibit No. 4, Line 26 reflects the elimination of these temporary surcharges and credits.

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, 2010, as follows: (1) fixed gas costs credit of $741,556 attributable to the collection of interstate pipeline capacity costs, the true-up of expense issues previously ruled on by the Commission, and mitigating capacity release credits generated from the release of Intermountain's pipeline capacity; (2) deferred gas cost amounts of $12.7 million attributable to variable gas costs since October 1, 2008; and (3) deferred gas costs related to Lost and Unaccounted-for Gas which results in a net per therm decrease to both sales and transportation customers. Application at 8.

Intermountain states that a straight cents-per-therm price decrease was not utilized for the LV-1 tariff. The proposed decrease 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 decrease 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 decrease for unaccounted-for gas recovery. *Id.*

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 price changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to Intermountain's customers.

THE COMMENTS

Staff reviewed the Company's proposed WACOG of $0.49600 and its forecasted natural gas prices through September 2010. Although Staff noted that Intermountain was predicting gas prices slightly higher than prices anticipated by other sources and forecasts, Staff found the Company's estimates to be reasonable. Intermountain's proposed WACOG is the lowest of any established and/or recently proposed WACOG of any major northwest gas utility. Staff attributed some of Intermountain's WACOG difference to: (1) Northwest Pipeline's proximity to Intermountain's service territory; (2) the significant capacity Intermountain holds on Northwest Pipeline for delivery of gas supplies from the Rockies Basin; and (3) Intermountain's extensive gas storage that allows it to hedge gas at lower prices. Ultimately, Staff determined that the proposed WACOG of $0.49600 per therm is reasonably supported by future commodity prices and, therefore, recommended the Commission approve the Company's Application.

In Order No. 30649, the Commission ordered that Intermountain Gas be permitted to recover a maximum of 0.85% of its total throughput as lost and unaccounted-for gas (L&U). The Commission also ordered the Company to submit quarterly reports regarding its L&U. This year the Company has significantly dropped its estimated percentage of L&U from 0.86% to 0.45% of total throughput – approximately 47% lower than last year's estimates. Staff recommended that the Commission maintain the maximum L&U gas recovery at 0.85% of total throughput. However, in order to continue to evaluate the Company's losses and procedures but make reporting less onerous, Staff recommended that the Commission reduce the frequency of L&U reports from quarterly to semi-annually. Staff also recommended that the Commission direct the Company to work with Staff in determining the content of the semi-annual reports.

Eight public comments were received in addition to comments filed by Commission Staff. All comments favored any proposal that would result in lower rates. Several comments advocated for a greater decrease than that proposed by the Company.

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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.

A current imbalance exists between supply and demand for natural gas which has driven down gas prices. In addition, Intermountain Gas utilizes dynamic hedging strategies and effectively manages its natural gas storage. These actions by the Company allow Intermountain Gas to guarantee stable and low prices to its customers. Consequently, we find it reasonable to decrease the approved WACOG from $0.67482 per therm to $0.49600 per therm.

In response to Order No. 30649, the Company has filed quarterly reports with the Commission explaining how it tests for, identifies, and remediates equipment measurement errors and leaks. In order to continue to evaluate Intermountain's lost and unaccounted-for gas but make reporting less onerous, the Commission finds it appropriate for Intermountain to reduce reporting from quarterly to semi-annually on its losses and procedures. Commission Staff is directed to meet with the Company and collaborate in determining the content of the Company's semi-annual L&U reports. Finally, the Commission maintains the cap on the amount recovered for L&U gas at 0.85% of total throughput, which is the current level approved in Order No. 30649.

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 shall decrease its annualized revenues by $72.4 million and establish a Weighted Average Cost of Gas at $0.49600 per therm. The Company shall file conforming tariffs to be effective October 1, 2009.

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 $0.49600 per therm.

IT IS FURTHER ORDERED that Intermountain Gas maintain its maximum lost and unaccounted-for gas recovery at 0.85% of total throughput. The Company shall submit to the Commission a semi-annual report regarding its lost and unaccounted-for gas.

IT IS FURTHER ORDERED that the Company collaborate with Staff in determining the content of the Company's semi-annual L&U reports.

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 29th day of September 2009.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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