Office of the Secretary
Service Date
September 30, 2010

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2010 PURCHASED GAS COST ADJUSTMENT)	)	**CASE NO. INT-G-10-03**
	)	**ORDER NO. 32077**

On August 11, 2010, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by $2.2 million. Application at 2. The Company requested that its Application be processed by Modified Procedure and that its rates become effective October 1, 2010.

On August 19, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure and set a September 22, 2010, deadline for comments. One public comment was received in addition to comments filed by Commission Staff. After reviewing the Application and comments, we authorize Intermountain Gas to decrease its annualized revenues by $2.2 million and establish a weighted average cost of gas at $0.49211 per therm. We authorize the new rates to become effective October 1, 2010.

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 by Northwest Pipeline GP ("Northwest" or "Northwest Pipeline"); (2) an increase in costs from Intermountain's "upstream" pipeline suppliers; (3) a decrease in Intermountain's weighted average cost of gas, or "WACOG"; (4) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment provision; (5) 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 (6) 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 Gas proposes decreasing the WACOG from the currently approved $0.49600 per therm to $0.49211 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 5.

Pursuant to Order No. 30913, Intermountain included temporary surcharges and credits in its October 1, 2009, prices for the principal reason of collecting or passing back to its customers deferred gas cost charges and benefits. Intermountain 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. Exhibit No. 4, Line 26 reflects the elimination of these temporary surcharges and credits. The proposed changes would result in a price decrease to Intermountain's RS-2, GS-1 and LV-1 customers and a slight increase to Intermountain's RS-1 customers. Transportation customers would also experience a small rate increase resulting from the reversal of the prior year amortization rates. Application at 4.

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 5. Although current commodity futures prices dictate the use of a $0.49211 per therm WACOG, the Company continues to remain vigilant in monitoring natural gas prices. If forward prices for natural gas materially deviate from $0.49211 per therm, the Company is committed to return to the Commission to amend these proposed rates.

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, 2011, as follows: (1) fixed gas costs credit of $2,079,148 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 $15.6 million attributable to variable gas costs since October 1, 2009; and (3) deferred gas costs related to lost and unaccounted-for gas (L&U) which results in a net per-therm decrease to both sales and transportation customers. Application at 7.

Intermountain states that a straight cents-per-therm price decrease was not utilized for the LV-1 tariff. There are no fixed costs recovered in the tail block of the LV-1 tariff. The proposed changes in the WACOG, and variable deferred credits (outlined in Exhibit 9) are applied to all three blocks of the LV-1 tariff, but adjustments relating to fixed costs are applied only to the first two blocks of the LV-1 tariff. *Id.* Each block of the proposed LV-1, T-3, T-4 and T-5 tariffs include a uniform cents-per-therm decrease to adjust for L&U gas. *Id.*

Intermountain asserts that customers have been notified regarding Intermountain's Application through a customer notice and press release. Application at 8. 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 Application and gas purchases for the year 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. The overall effect of the proposed changes in the Company's Application is a decrease in annual revenue received by Intermountain of $2,185,875. The proposal drops the WACOG from the current rate of $0.49600 per therm to the proposed rate of $0.49211 per therm.

This year natural gas prices have been steadily declining. This spring, in response to low summer and forward prices, the Company was able to lock-in gas for the injection season at favorable prices. Current economic conditions coupled with the Company's hedging strategies have allowed the Company to purchase gas at prices much lower than the WACOG currently set in rates, i.e., last year's WACOG of $0.49600 per therm in the Company's amended 2009 PGA filing was high compared to what Intermountain paid for gas throughout the year. Actual gas prices continued decreasing throughout the year, and therefore resulted in the Company over-collecting revenue from customers. This over-collection will be credited back to customers over the next 12 months.

Staff reviewed the established and recently proposed WACOGs of other major northwest gas utilities and found that Intermountain's proposed WACOG continues to be the lowest. Direct comparisons can be difficult because some utilities include different (transportation and storage) elements in the WACOG calculation and have different amortization rates on the year-to-year deferral balances. However, Staff explained that Intermountain's

WACOG difference can also be attributed 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.

Given that the Company has locked the majority of its winter flowing gas supplies, Staff determined that a WACOG of $0.49211 per therm is reasonable when compared to forecasted future commodity prices. Staff recommended the Commission accept the Company's proposed WACOG. However, Staff agreed with the Company that if prices significantly deviate from the proposed rates, the Company should return to the Commission with a new filing.

Intermountain utilizes storage to avoid high winter prices by procuring gas during the summer when prices are usually cheaper. The Company has 111 million therms in underground storage going into the winter heating season, which represents 52% of its November 2010 to March 2011 supply requirement. Intermountain entered into various hedging agreements to lock-in the price of its underground storage and other winter flowing supplies. The remaining storage injections have been locked in at prices ranging from $0.39800 to $0.41600 per therm. Consistent with prior years, as of September 1, 2010, the Company's LNG storage was at approximately 59% of its capacity.

Intermountain delivers transported natural gas to its Idaho city gates through Northwest Pipeline, an interstate transportation provider whose pipeline runs through Intermountain's service territory. However, in order to move gas from Canada to Northwest Pipeline, Intermountain also utilizes capacity on Gas Transmission Northwest (GTN), TransCanada's Foothills Pipeline system (Foothills) and its Alberta system known as Nova Gas Transmission (Nova). Intermountain's pipeline capacity rates for both Nova and Foothills increased in 2010 resulting in an increase of $1.8 million. Northwest Pipeline updated its rates effective May 21, 2010. While some rates decreased and others increased (storage and fuel rates), the pipeline transportation rate billed to Intermountain remains unchanged. Contractual terms with Northwest Pipeline allowed for a slight decline in daily volume and a decrease in capacity costs of $1.2 million.

Lower Rockies Basin prices have benefited Intermountain due to the lack of pipeline infrastructure capable of moving Rockies gas east. However, Rockies Express pipeline, a 639-mile pipeline built to move gas east, was completed this past year. This pipeline will enable

Rockies direct access to the eastern markets for the first time which is expected to increase price competition among suppliers in North America. To date, the completion of the Rockies Express pipeline has not significantly influenced natural gas prices.

This year the Company has significantly reduced its estimated percentage of L&U gas to 0.20% of total throughput, approximately 55% lower than last year's estimates of 0.45%. The Company indicates that this year's L&U gas estimate of 0.20% is expected to be closer to the actual L&U gas going forward. Staff recommended that the Commission allow the Company to credit the L&U gas amount requested in this PGA and that the Company continue to submit semi-annual L&U gas reports for review. Staff also recommended that the Commission maintain the maximum L&U gas recovery of 0.85% of total throughput as specified in Order No. 30649.

One comment was received from an RS-1 residential customer (space heating only) who will receive a slight increase in rates if the proposed PGA is approved. The customer contended that it was not fair to reward some customers with a decrease because they use more natural gas and penalize others who use less natural gas.

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.

An imbalance currently exists between supply and demand for natural gas which has driven down gas prices. Intermountain Gas also utilizes dynamic hedging strategies and effectively manages its natural gas storage. These factors allow Intermountain Gas to provide approved WACOG from $0.49600 per therm to $0.49211 per therm. We commend the Company for its management of gas procurement resulting in a lower WACOG.

The Company continues to file semi-annual reports with the Commission explaining how it tests for, identifies, and remediates equipment measurement errors and leaks. The Commission continues to find such reporting reasonable. 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. The Commission commends the Company on its efforts and proven reductions in L&U gas.

In response to the RS-1 customer comment, the Commission wants to clarify that all customers are being treated equitably. The reduction in gas costs are assigned to all customers. Capacity release revenues and other offsetting benefits are assigned to each class based on the same assignment ratios used for the associated costs. RS-1 customers have a different level of revenues and benefits. Therefore, RS-1 customers who paid a smaller portion of the costs now receive a smaller portion of the associated benefits.

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 $2.2 million and establish a weighted average cost of gas at $0.49211 per therm. The tariff sheets filed with the Company's Application are hereby approved, to be effective October 1, 2010.

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 $0.49211 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 continue to submit a semi-annual report to the Commission regarding its lost and unaccounted-for gas.

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 2010.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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