# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2011 PURCHASED GAS COST ADJUSTMENT).** | ) ) ) ) ) ) | **CASE NO. INT-G-11-01** <br><br> **ORDER NO. 32372** |

On August 11, 2011, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenue by $14.4 million (5.3%). Application at 2. The Company asked that its Application be processed by Modified Procedure, and that its rates take effect October 1, 2011. *Id.* at 9.

On August 18, 2011, the Commission issued a Notice of Application and Notice of Modified Procedure and set a September 21, 2011 comment deadline. *See* Order No. 32329. Having reviewed the Application and the comments received, the Commission enters this Order authorizing the Company to decrease its annualized revenues by $14.4 million and establish a weighted average cost of gas ("WACOG") of $0.45342 per therm, with such changes taking effect on October 1, 2011.

## THE APPLICATION

Intermountain proposes decreasing its annualized revenue by $14.4 million (about 5.3%). Application at 2. The Company contends the proposed changes will decrease its customer rates while not affecting the Company's earnings. Application at 2, 4.

Intermountain seeks to pass-through to each customer class a net change in gas-related costs resulting from (1) a cost increase billed to Intermountain by Northwest Pipeline GP; (2) a cost decrease from Intermountain's "upstream" pipeline suppliers and its storage facilities; (3) a decrease in Intermountain's weighted average cost of gas ("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 natural gas purchases 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 various pipeline systems. Application at 3-4.

Intermountain proposes decreasing the WACOG from \$0.49211 per therm to \$0.45342 per therm. The Application maintains that "[c]ontinued weakness in the regional and national economies has put downward pressure on new customer growth and weather adjusted demand for natural gas. At the same time, natural gas supplies are ample and U.S. dry gas production is at an all time high. Robust supply coupled with flat demand has kept the near term prices for natural gas relatively low." *Id.* at 5.

Pursuant to Order No. 32077, Intermountain included temporary surcharges and credits in its October 1, 2010 prices to pass back to customers deferred gas cost charges and benefits. Intermountain now seeks to eliminate the temporary surcharges and credits included in its current prices during the past 12 months. The proposed changes would result in an overall price decrease to Intermountain's customers. Application at 4, 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 when prices are typically lower than during the winter, (making) the cost of Intermountain's storage gas normally less than what could be obtained on the open market in winter months." Additionally, and to further stabilize prices paid by customers during the upcoming winter period, Intermountain has entered into fixed price agreements to lock-in the price for significant portions of its underground storage and other winter "flowing" supplies. *Id.* at 5.

The Company proposes allocating 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, 2012, as follows: (1) fixed gas costs credit of \$5.9 million 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 incremental release of Intermountain's pipeline capacity; (2) deferred gas cost amounts of \$12.2 million attributable to variable gas costs since October 1,2010; 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. *Id.* at 6-7.

Intermountain says it did not use a straight cents-per-therm price decrease 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. 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. *Id.* at 7.

Intermountain states it notified customers about its Application through a customer notice and press release. The Company asserts that the proposed overall price changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to Intermountain's customers. *Id.* at 8.

**THE COMMENTS**

Comments were filed by Staff and a member of the public. The comments are, in sum, as follows.

***Staff 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 Company's proposed changes will result in an overall decrease in annual revenue received by Intermountain of $14,377,405.

<u>WACOG</u>

Intermountain's proposal drops the WACOG from the current rate of $0.49211 per therm to the proposed rate of $0.45342 per therm. The proposed WACOG is about equivalent to the 2003 WACOG in nominal dollars. Staff recommended that the Commission accept the proposed WACOG, and that the Company return to the Commission with a new filing if prices significantly deviate from the proposed rates during the upcoming year.

Staff noted that the Company's WACOG continues to decline for two reasons. First, the natural gas industry expects relatively low near-term demand growth in regional and national markets due to lingering weak economic conditions. Second, the natural gas market supply continues to grow despite lower natural gas prices due to reduced costs to access unconventional gas resources and the use of more advanced drilling technology. Staff observed that the Company's monthly purchased gas cost generally is higher than Staff's estimates, with the largest differences occurring during the winter (mostly due to hedging). Staff nevertheless found that the Company's proposed WACOG (though conservative) reasonably compares to other industry natural gas price benchmarks (e.g., EIA monthly forecasts, NYMEX futures prices).

Risk Management and Gas Purchasing

Intermountain lowered its winter hedging ratios from 90% (used during the past two years) to 69%, a move that will enable the Company to buy natural gas for less than it could have had it continued to use the prior ratios. Staff believes that the Company took a conservative but appropriate position by allowing for increased opportunities to take advantage of softening prices, while maintaining sufficient protection against increased market prices.

Continued weak economic conditions coupled with the Company's hedging strategies have allowed the Company to purchase gas for less than the current WACOG set in rates during the past year. This contributed to an over-collection of approximately $12.2 million now being credited back to customers during this year's PGA.

Natural Gas Storage

Intermountain utilizes storage to (1) avoid high winter prices by procuring gas during the summer when prices are usually cheaper and (2) provide system-designed peaking capacity for unusually high demand events or backup for potential pipeline disruptions and curtailments. The Company has 95 million therms in underground storage going into the winter heating season, which represents 42% of its November 2011 to March 2012 supply requirement. Intermountain entered into various supply agreements to lock-in the price of its underground storage. The remaining storage injections have been locked in at prices ranging from $0.4080 to $0.4871 per therm. As of September 13, 2011, the Company's LNG storage was at approximately 78% of its capacity.

Pipeline Transportation

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 Nova increased in 2011, resulting in a decrease of approximately $500,000. Northwest Pipeline updated its rates effective April 4, 2011. Traditionally, Northwest Pipeline and other fuel providers change rates annually, but these annual changes do not largely affect the price Intermountain charges to customers. The pipeline transportation rate billed to Intermountain remains unchanged. Contractual terms with

Northwest Pipeline increased daily volume as well as capacity costs by approximately $1 million. Capacity on these pipelines remains a key component in serving customers and maintaining supply diversity. Intermountain will also determine when its contracted interstate transportation is under-utilized due to warmer weather or declines in industrial demand. This capacity will be posted for release to others with the release payments received benefiting Intermountain customers.

Intermountain's proximity to several interstate pipelines allows it to effectively allocate its natural gas supply mix from different basins based on price differentials, and to subsequently re-deliver that specified volume on its own distribution pipeline network at the lowest possible price. Intermountain has traditionally sourced a higher percentage of gas from the Rockies Basin, because of Northwest Pipeline's close proximity to the Company's service territory and lower price.

The recent completion of the Rockies Express (November 2009) and Ruby (July 2011) pipelines has opened access of Rockies Basin natural gas to the East and to the West, respectively. This appears to be changing the market that the Company uses to source its gas by increasing competition and price for Rockies Basin gas while decreasing competition and the price of gas out of Alberta Canada (AECO-C).

Recovery of Lost and Unaccounted for Gas

This year the Company is in a "found gas" position, with 894,000 therms more of gas being metered into Intermountain's service area than were metered at the point of consumption. The Company says this can happen if measurement error occurs on the high side at Intermountain's city gates and/or on the low side at the customer's meter, even if the error is within acceptable tolerances. Because the absolute value of L&U as a percent of total yearly throughput is below what was reported last year, this may indicate that the amount of measurement error is improving and the measures the Company has put into place to improve on reducing L&U are working.

Staff recommended that the Commission allow the Company to refund to customers L&U gas amount requested in this PGA ($1,506,252), 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.

***Public Comments***

The sole public commenter is a customer who is pleased with the Company's proposed rate decrease.

**FINDINGS AND DISCUSSION**

The Commission has 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 must establish just, reasonable, and sufficient rates for utilities subject to its 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.

The currently increased supply of natural gas 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 stable prices to its customers. Consequently, we find it reasonable to decrease the approved WACOG from $0.49211 per therm to $0.45342 per therm.

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.

**O R D E R**

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 $14.4

million and establish a WACOG at $0.45342 per therm. The tariff sheets filed with the Company's Application are hereby approved, to be effective for service rendered on and after October 1, 2011.

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 apply to amend its WACOG should gas prices materially deviate from the presently approved $0.45342 per therm.

IT IS FURTHER ORDERED that Intermountain Gas refund $1,506,252 to customers for L&U, and maintain its maximum L&U 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 2011.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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