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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO DECREASE ITS PRICES	**CASE NO. INT-G-11-03** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Intermountain Gas Company's December 22, 2011 Application for authority to decrease its prices.

BACKGROUND

On December 22, 2011, Intermountain Gas Company applied for authority to decrease its revenues from February 1, 2012 to September 30, 2012 by $6.0 million. Application at 2. The Company contends the proposed revenue decrease relates to changes in the Company's gas purchase costs and will decrease customer rates while not affecting the Company's earnings. *Id.* at 2. The Company asked the Commission to process the Application by Modified Procedure, and that the new rates take effect February 1, 2012. *Id.* at 6.

With this Application, Intermountain Gas seeks to pass-through to its customers a decrease in gas commodity costs resulting from a decrease in Intermountain's weighted average cost of gas ("WACOG"). The Company says this would result in an overall price decrease to Intermountain's RS-1, RS-2, GS-1, LV-1, IS-R and IS-C customers. Application at 3.

Intermountain proposes decreasing the WACOG from the currently approved $0.45342 per therm to $0.41812 per therm because regional natural gas prices have continued to decline since Intermountain filed INT-G-11-01 in August 2011. *Id.* at 4. The Company attributes the decline to: (1) the continued prolific availability of U.S. shale gas production, (2) storage balances being at or near record high levels, (3) the lack of material hurricane activity that would typically reduce natural gas deliverability, and (4) a mild winter that has dampened natural gas demand across the Pacific Northwest. *Id.* Additionally, the Company says the domestic Ruby pipeline has displaced traditional Canadian natural gas supplies and softened "prices at the AECO hub in Alberta which makes up a significant portion of the Company's gas supply portfolio." *Id.*

Intermountain says it has allocated the proposed price changes to each of its customer classes based on Intermountain's Purchased Gas Cost Adjustment (PGA) provision. *Id.*[1] The Company says the proposed price changes are just, fair, and equitable. *Id.* at 5.

Intermountain asserts that customers have been notified regarding Intermountain's Application through a customer notice and press release. *Id.* Finally, the Company requests that this matter be handled under Modified Procedure and that its rates become effective on February 1, 2012. *Id.* at 6.

STAFF ANALYSIS

Intermountain's current filing results from the Company's adherence to Order No. 32372, which requires that the Company apply to reduce prices whenever purchased gas costs materially deviate from those currently authorized and embedded in rates. The Company proposes to reduce the WACOG from $0.45342 per therm to $0.41812 per therm. This is 7.79 percent less than the WACOG approved in the 2011 PGA, which took effect on October 1, 2011.

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[1] 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.

Staff reviewed the Company's Application primarily by comparing it to Staff's analysis of the WACOG approved in the October 1, 2011 PGA (Case No. INT-G-11-1). Based on this review, Staff finds that:

1. the Company's method to determine the WACOG is rigorous and the calculations are accurate;
2. the Company's proposed reduction in its WACOG correlates with market trends identified in Staff's comments for the October 2011 PGA filing and that these trends persist; and
3. the cost of purchased gas that forms the basis for the proposed WACOG reasonably compares to current benchmark market prices forecasted by third-party sources.

Accordingly, Staff recommends that the Commission approve the Company's proposed WACOG and reduce rates by $0.03530 per therm for the Company's RS-1, RS-2, GS-1, LV-1, IS-R and IS-C customers.

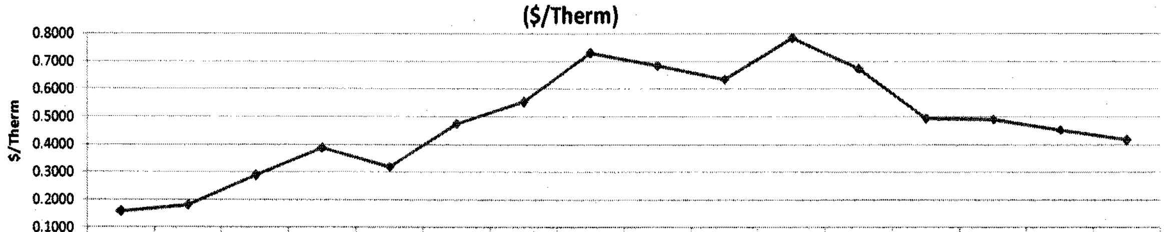
Method and Accuracy Review

The Company used the same method to develop this proposed WACOG as the method it used in the October 2011 PGA. Because Staff found that method to be rigorous and sound, Staff has limited its review of the proposed WACOG decrease to auditing calculations contained in workpapers accompanying the Company's Application. Staff's review found all relevant data and calculations to be appropriate and accurate.

Market Trend Analysis

After analyzing the WACOG trend given current and future market conditions, Staff concluded that a continued trend for a decrease in the Company's WACOG is valid and reasonable. As reflected in the chart below, the proposed WACOG, if approved, will be the fifth consecutive decrease.

Weighted Average Cost of Gas
($/Therm)



	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'08 (Dec.)*	'09**	'10	'11	'11* (Dec. prop.)
WACOG ($/Therm)	0.1568	0.1825	0.2867	0.3880	0.3200	0.4750	0.5549	0.7322	0.6850	0.6358	0.7848	0.6748	0.4960	0.4921	0.4534	0.4181
% Inc. or Dec. from Prev. Year	0.0%	16.4%	57.1%	35.3%	(17.5%)	48.4%	16.8%	31.9%	(6.4%)	(7.2%)	23.4%	6.1%	(26.5%)	(0.8%)	(7.9%)	(7.8%)

* % Change based on previous regularly scheduled PGA filing
** % Change based on previous December filing

When analyzing the Company's October 2011 PGA Application, Staff recognized that natural gas prices had continued to soften between the time the Company developed its purchased gas forecast and when Staff performed its market analysis for comparison only 23 days later. The same conditions hold for this Application, which indicates that the same trends continue. Futures prices have continued to soften between the December 16, 2011 settles[2] used to determine the Company's proposed WACOG reduction and the January 9, 2012 settles used to determine Staff's benchmark analysis.

In addition, Staff verified numerous factors that indicated further softening of natural gas prices. Long term, the most significant factor causing price decline over the past few years has been the discovery of non-traditional gas deposits due to new drilling technologies. Regionally, Staff confirmed a trend of decreased demand and softening prices of Alberta Canada (AECO-C) gas due to the newly operational Ruby and Rocky Mountain Express pipelines, which have increased West coast and mid-West access to Rocky Mountain gas. Short term, there were indications of stability in the number of operating drill rigs and lack of forecasted hurricane activity in the Gulf of Mexico. These factors, along with mild weather across the nation and record quantities of stored gas, have further depressed prices for the short-to-medium term.

[2] A "settle" is the last price paid or "closing" price for a futures contract on a particular trading day.

Price Benchmark Analysis

Staff repeated its price benchmark analysis from the October 2011 PGA using current NYMEX/NGX exchange futures prices. Based on this analysis, Staff concluded the Company's proposed WACOG reasonably compares with current price benchmarks. These comparisons are illustrated in Chart 1.0, Confidential Attachment A.

The analysis compares the Company's forecasted monthly cost of purchased gas from this filing to two, volume-weighted cost-of-purchased-gas estimates developed by Staff. These estimates use historic volume allocation percentages for the three hubs where the Company buys gas.[3] The first estimate uses NYMEX/NGX futures prices and differentials based on January 9, 2012 settles. The second estimates uses Company-adjusted price forecasts based on December 12, 2011 NYMEX/NGX settles included in the current filing. The difference between the Staff's two estimates helps illustrate that market prices continued to soften between when the Company submitted its current Application and when Staff analyzed that Application 28 days later.

Comparing the Company's cost of purchased gas in the current Application to Staff's estimates shows significant price differences during the winter (October through March) and much smaller differences during the summer (April through September). Most of the winter price differences can be attributed to: (1) significantly softer prices reflected in Staff's estimate based on a January 9, 2012 settle date; and (2) earlier purchases the Company made at "locked-in," higher prices under contracts that anticipated higher winter prices that never materialized. The difference in summer pricing reflected in Staff's estimates and the Company's Application can be explained by embedded transportation costs, contract adjustment factors, fixed and option priced gas cost premiums, and hub allocation differences between Staff's method and methods used by the Company to develop its proposal.

In addition, Staff compared the monthly cost-of-purchased-gas forecast used in the Company's Application to the forecast used in Intermountain's October 2011 PGA. This comparison is illustrated in Chart 2.0, Confidential Attachment A.

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[3] These allocation percentages are forecasts based on historical allocations supplied by the Company through audit requests submitted in case INT-G-11-01. These are not the same allocations used in the WACOG calculation for the current Application.

Staff notes the differences between the two filings during the remaining winter months are much smaller than differences in summer months. The smaller differences during winter months can be attributed to the Company's hedging strategy, which "locked-in" prices for approximately 70 percent of winter gas.[4] However, the Company's hedging ratio left approximately 30 percent of winter gas indexed to the market, which has allowed the Company to take limited advantage of currently lower market prices. In the current filing, the cost of purchased gas during summer months decreases significantly compared to the October 2011 PGA forecast. This decrease can be attributed to a combination of lower prices overall and the Company leaving all its purchases indexed to the market or "un-locked" when it filed the October 2011 PGA. The Company's current filing demonstrates the Company has "locked-in" prices of significant volumes of gas to take advantage of currently low prices. Staff believes this has merit given the potential for higher prices, especially if snowpack levels remain low throughout the Pacific Northwest and electric utilities utilize natural gas plants to make up for shortfalls in hydropower generation.

STAFF RECOMMENDATION

After examining the Company's Application, Staff recommends that the Commission accept the Company's request and filed tariffs establishing a WACOG of $0.41812 per therm.

Respectfully submitted this 19th day of January 2012.

Karl T. Klein
Deputy Attorney General

Technical Staff: Mike Louis

i:umisc/comments/intg11.3kkml comments

[4] See Staff Comments, Case INT-G-11-01, page 10.

THIS ATTACHMENT CONTAINS CONFIDENTIAL INFORMATION AND IS FILED UNDER SEPARATE COVER

Attachment A
Case No. INT-G-11-03
Staff Comments
January 19, 2012

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JANUARY 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-11-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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