Office of the Secretary
Service Date
September 28, 2012

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL PURCHASED GAS ADJUSTMENT (PGA) FILING OF INTERMOUNTAIN GAS COMPANY	)))))	**CASE NO. INT-G-12-01** **ORDER NO. 32653**

On August 10, 2012, Intermountain Gas Company ("Intermountain" or "Company") filed its annual Purchased Gas Cost Adjustment ("PGA") and requested a Commission Order, pursuant to *Idaho Code* §§ 61-307 and 61-622, to institute new rate schedules which will decrease its annualized revenues by $6.0 million. *Application* at 2. Intermountain also "seeks to refund $11.9 million of variable deferred credits in a one-time bill credit." *Id.* Intermountain attached copies of its current rate schedules and proposed rate schedules. *Id.*, Exh. 1-2.

On September 5, 2012, the Commission issued Notices of Application, Modified Procedure and Intervention Deadline. *See* Order No. 32632. Commission Staff ("Staff") was the only party to submit written comments by the September 20, 2012 comment deadline.

THE FILING

Intermountain's Application lists the following cost variations that it seeks to pass through to each of its customer classes through this filing:

> (1) an increase in costs billed Intermountain from Northwest Pipeline GP ("Northwest" or "Northwest Pipeline") reflecting a January 1, 2013 price increase and the purchase of additional Northwest capacity, (2) a decrease in Intermountain's Weighted Average Cost of Gas, or "WACOG," (3) an updated customer allocation of gas related costs pursuant to the Company's PGA provision, (4) 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 (5) benefits resulting from Intermountain's management of its storage and firm capacity rights on various pipeline systems. 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 No. 32372 per Case No. INT-G-11-01.

Id. at 3-4. The Company asserts that the net effect of the "above changes would result in an overall price decrease to Intermountain's customers." *Id.* at 4.

According to Intermountain, its "proposed prices incorporate all changes in costs relating to the Company's firm interstate transportation capacity including, but not limited to,

any price changes or projected cost adjustments implemented by the Company's pipeline suppliers as well as any volumetric adjustments in contracted transportation agreements which have occurred since Intermountain's PGA filing in Case No. INT-G-11-01." *Id.*

Intermountain notes that "Northwest Pipeline and its shippers settled Northwest's recent rate case filing resulting in an approximate 9% price increase effective January 1, 2013. *Id.*, Exh. 3. Next, Intermountain recounted the efforts the Company has taken to "effectively manage its natural gas storage assets." *Id.* at 4-5, Exh. 4.

The Application lists a decrease in the WACOG price from the current price of $0.41812 per therm to the proposed price of $0.33489 per therm. *Id.* at 5, Exh. 4. Intermountain declares that natural gas prices have continued to fall. *Id.* Intermountain states that natural gas storage balances are at "record levels." *Id.* Thus, record storage levels combined with "ample natural gas supplies . . . has kept the near term prices for natural gas low." *Id.* Intermountain states that it "has entered into various fixed price agreements to lock-in the price for significant portions of its underground storage and other winter 'flowing' supplies." *Id.*

Intermountain's Application seeks "to pass through to its customers the benefits that will be generated from the management of its transportation capacity totaling $3.7 million as outlined on Exhibit No. 7." *Id.* at 6. Intermountain's proposal seeks 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, 2013. . . ." *Id.* at 7, Exh. 6, 8-9.

Intermountain filed "an out-of-cycle PGA which was effective February 2012 to account for rapidly falling natural gas prices. . . ." *Id.* Nevertheless, prices continued to drop and "lower natural gas commodity prices from July 2011 through June 2012 resulted in a credit balance of $11.9 million." *Id.* at 7, Exh. 10. Intermountain's proposal includes a "refund of this balance through a one-time credit on customer bills in December 2012." *Id.* The credit balance would be divided by actual sales volumes over the time period it was generated to arrive at the per therm credit. *Id.*, Exh. 10. "This calculated credit would be reflected as a line item on customer bills in December 2012." *Id.* at 8, Exh. 10. Intermountain did not apply "a straight cent per therm price decrease . . . for the LV-1 tariff as no fixed costs are currently recovered in the tail block of the LV-1 tariff." *Id.* The changes to the WACOG price, as well as other variable deferred credits, "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 increase to adjust for Lost and Unaccounted For Gas as detailed on Exhibit No. 9, Lines 13 through 20, Col. (b)." *Id.* An analysis of the overall price changes by class of customer is outlined in Exhibit No. 11. *Id.*

Intermountain states it has provided notice of the proposed changes to its tariff schedules through the issuance of a formal Customer Notice and Press Release. *Id.* Intermountain proposes an effective date for the proposed changes of October 1, 2012. *Id.* at 10.

STAFF COMMENTS AND RECOMMENDATIONS

Staff reviewed the Company's Application and gas purchases 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 Application proposes a credit of approximately $11.9 million to customers in the form of a one-time bill credit to customers on their December bills. Another $6.0 million in revenue would be passed back to customers through a 2.4% decrease in the Company's rates beginning October 1, 2012. The combined credits would yield an overall price decrease of 7.1%.

WACOG

Intermountain's proposal drops the WACOG from the current rate of $0.4181 per therm to the proposed rate of $0.3349 per therm. This represents a 26.1% decrease authorized in the Company's 2011 PGA filing, INT-G-11-01, and a 19.9% decrease from the Company's December 2011 WACOG filing, INT-G-11-03. Staff believes that the Company's methods are solid and accurate; the proposed WACOG reflects current and future economic factors; and the proposed WACOG reasonably compares to benchmark market prices.

Staff noted that the Company implemented two improvements recommended by Staff in comments pertaining to its 2011 PGA filing: (1) approval of the fixed cost collection rate was incorporated as part of the Company's PGA filing rather than through a separate approval by Staff after the PGA is authorized by the Commission; and (2) the Company organized its gas contracts, and other documents relevant to the development of the WACOG, in a manner that allowed Staff to more easily locate and review them. In future filings, Staff recommended that the Company include electronic versions of exhibits and workpapers with its initial filing.

Staff's analysis of current market trends led it to conclude that the Company's forecast of a downward trend in the WACOG is valid and reasonable. Staff noted that this is the

sixth consecutive decrease and that the proposed WACOG is roughly equivalent to the 2002 WACOG in nominal dollars.

Finally, several factors have driven the price of gas to the lowest levels seen in over 10 years: (1) continued weak economic conditions, i.e., weak demand; (2) mild winter in 2011-2012; (3) a prolific increase in the supply of shale and unconventional gas aided by reduced costs and more advanced drilling technology; (4) an increase in natural gas from oil drilling; and (5) storage balances filled to capacity sooner than expected.

Staff compared the Company's projected monthly cost of purchased gas used to determine the proposed WACOG to EIA's monthly forecasts and to NYMEX futures prices. The Company's proposed WACOG is conservative but reasonably compares to published natural gas price benchmarks.

Risk Management and Gas Purchasing

Intermountain lowered its winter hedging ratios from 69.4% to 63.3%. For the full year, the Company's hedging ratio averages out to 59.0%. Staff believes that the Company has made adjustments in its hedging ratios to match current market conditions and to protect consumers from future upward price risk.

Staff believes that the Company's ability to dynamically adapt to market conditions continues to offer customers savings and, more importantly, mitigate price volatility by hedging in an intelligent manner. Stagnant economic conditions allowed Intermountain to purchase gas for less than the current WACOG set in rates during the past year, leading to the aforementioned over-collection the Company proposes to credit back to customers.

Temporary Surcharges and Credits

Staff reviewed the new temporary credits and noted that they consist of three separate items: (1) a credit of approximately $3.7 million in benefits generated by release of some pipeline transportation capacity; (2) an additional credit of $4.8 million attributable to the collection of pipeline capacity costs, the true-up of expenses from the 2011 PGA, and capacity release credits generated from the release of Intermountain's pipeline capacity; and (3) the $1.3 million deferred credit balance, which is the difference from the commodity costs that Intermountain actually paid for natural gas and the WACOG that was included in rates. The temporary credit items, minus the drop in revenue proposed by the Company, results in a total credit of $9.8 million. This amount is then offset by the removal of prior temporaries, including

lost and unaccounted for gas (L&U), for a total deferral of $13.4 million. As mentioned earlier, the total reduction in revenue is approximately $6 million. *See* Page 4, Table 2.

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 contracted underground storage going into the winter heating season, which represents 38% of its November 2012 to April 2013 supply requirement. Intermountain entered into various supply agreements to lock-in the price of its underground storage. These storage injections have been locked in at prices ranging from $0.2375 to $0.3852 per therm. The Company expects to keep only 50% of its 18.5 million therms of total LNG capacity throughout the winter. Storing significantly more LNG than anticipated usage during the winter would come at an additional expense to customers.

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 decreased in 2012 by approximately $600,000. Northwest Pipeline settled its prefiled FERC rate case and updated its rates effective January 1, 2013. Contractual terms with Northwest Pipeline increased daily volume as well as capacity costs by approximately $6 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 "lost gas" position, with 4.5 million therms less of gas flowing through customer's meters than into Intermountain's service area, representing a 0.76% L&U rate. This rate is approaching the 0.85% maximum cap of L&U as a percentage of total throughput established by the Commission in Order No. 30649. Staff believes that the Company's L&U for this PGA filing is accurate and recommended the Company be allowed to surcharge customers $2,060,867 for L&U requested in the PGA.

Because this year's L&U was approaching the 0.85% cap and because of relatively large swings in the L&U from year-to-year, Staff investigated possible root causes for the variation. Staff discovered that the Company had found an error that affected a large customer's bill for approximately the past three years.

Intermountain has expressed a desire to review L&U through its integrated resource planning process but Staff continues to recommend that the Company be required to submit semi-annual L&U gas reports for review. Staff believes that the Company should be compelled to quantify normal causes of variation before shifting to less frequent reviews. Staff recommended that the Commission maintain the maximum L&U gas recovery of 0.85% of total throughput as specified in Order No. 30649.

Customer Relations

Staff agrees with the Company's method of calculating the proposed credit in its Application. Staff supports the one-time credit method over the normal PGA method for three reasons: (1) it gives money back to customers sooner; (2) the credit is based on each customer's usage during the time period the credit accumulated; and (3) it will provide rate stability.

Staff noted that the Company issued a Customer Notice and Press Release in compliance with the IPUC Rules of Procedure. The Commission did not receive any public comments regarding the Company's Application.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

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, more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502, and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq*.

COMMISSION FINDINGS AND DECISION

The Commission has thoroughly reviewed the record in this case, including the Company's Application and exhibits, as well as Staff comments. The Commission reviews the Company's annual PGA filing in order to verify that it properly adjusts rates to reflect contemporary changes in the costs for the purchase of gas from suppliers, including transportation, storage and other related costs associated with the acquisition and delivery of natural gas. Intermountain's PGA filing does not increase, decrease or otherwise affect the Company's earnings.

The Commission finds Intermountain's calculation of the proposed credit and estimation of the near-term pricing levels for natural gas to be reasonable and accurate. It is abundantly clear that record storage and supply levels are currently outpacing aggregate demand, resulting in the continuing decline of wholesale natural gas prices. Therefore, the Commission finds that it is fair, just and reasonable for Intermountain Gas to decrease its previously approved WACOG from $0.4181 per therm to $0.3349 per therm.

Further, the Commission finds that a one-time bill credit based upon actual usage during the time period that the credit balance was accrued is a fair, just and reasonable method to reimburse customers. Instead of embedding the value of the credit in rates throughout the coming year, the single credit method will allow customers more immediate rate relief during a time period when natural gas usage is typically nearing its peak.

The Commission directs the Company to continue filing semi-annual L&U gas reports, per Commission Order No. 30649. The Company is encouraged to meet with Staff and come to agreement on standard loss control practices for the identification and remediation of

extraordinary causes due to leaks and errors. Once the Company can demonstrate successful implementation of such practices, the Commission invites the Company to request a shift of the reporting of L&U gas to the Company's Integrated Resource Plan. Finally, the Commission maintains maximum L&U recovery at 0.85% of total throughput previously approved in Commission 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 approximately $6.0 million and establish a new WACOG of $0.3349 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, 2012.

IT IS FURTHER ORDERED that the Company's request to pass along to customers a one-time bill credit of approximately $11.9 million on their December bill, resulting in an overall price decrease of approximately 7.1% to the average customer, is approved.

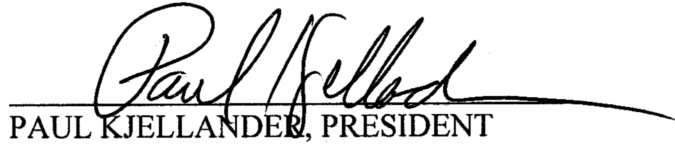
IT IS FURTHER ORDERED that Intermountain Gas shall continue to file quarterly WACOG projections and monthly deferred costs reports with the Commission.

IT IS FURTHER ORDERED that Intermountain Gas promptly apply to amend its WACOG should gas prices materially deviate from the presently approved $0.3349 per therm.

IT IS FURTHER ORDERED that Intermountain Gas shall be permitted to surcharge customers $2,060,867 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 28th day of September 2012.

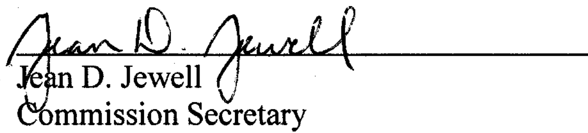


PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:INT-G-12-01_np2