BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2013 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. INT-G-13-05** **ORDER NO. 32897**

On August 9, 2013, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application and asked to increase its annualized revenues by $10.3 million, for an overall increase of about 4.15%. If granted, the Company's proposal would increase customer rates effective October 1, 2013. The proposal would enable the Company to recover from customers the Company's increased costs to buy gas, but it would not increase the Company's earnings. On August 23, 2013, the Commission issued a Notice of Application and Notice of Modified Procedure soliciting public input on the Application and setting a September 18, 2013 comment deadline. Order No. 32882. Commission Staff and one member of the public filed timely written comments. The Company did not reply.

Having reviewed the record, the Commission enters this Order granting the Application as follows.

THE APPLICATION

The PGA is used to adjust rates to reflect annual changes in the Company's costs to buy natural gas from suppliers—including transportation, storage, and other related costs. *See* Order No. 26019. With this PGA Application, the Company seeks to pass-through to each of its customer classes changes in gas-related costs resulting from: (1) an increase in transportation costs billed to the Company by Northwest Pipeline GP ("Northwest" or "Northwest Pipeline"); (2) an increase in the Company's weighted average cost of gas ("WACOG"); (3) an updated customer allocation of gas-related costs under 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 the Company's deferred gas cost accounts; and (5) benefits resulting from the Company's management of its storage and firm capacity rights on various pipeline systems. The Company also seeks to eliminate the temporary surcharges and credits included in its current prices during the past 12 months, pursuant to Case No. INT-G-12-01.

Although the proposed changes would not affect the Company's earnings, they would increase overall prices for RS-1, RS-2, GS-1 and LV-1 customers. More specifically, residential customers using gas for space and water heating would see a $1.85/month (3.92%) average increase, customers using natural gas for space heating only would see a $0.68/month (1.88%) average increase, and commercial customers would see a $14.18/month (7.26%) average increase. The Company says its proposal would decrease prices for its T-3, T-4, and T-5 customers.

The Company says its proposed price changes 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 the Company's last PGA filing, Case No. INT-G-12-01.

The Company proposes increasing the WACOG from the currently approved $0.33489 per therm to $0.37341 per therm. The Company says while there are significant shale gas reserves, recent improvements in the economy and an increase in natural gas-fired electric generation have increased demand and placed upward pressure on prices for natural gas. The Company notes, however, that natural gas prices remain much lower than they were a few years ago.

The Company says it has entered into fixed price agreements to lock-in the price for significant portions of its underground storage and other winter "flowing" supplies.

The Company seeks to pass through to its customers the benefits that will be generated from the management of its transportation capacity totaling $3.9 million. The Company also proposes a temporary price adjustment for the 12-month period ending September 30, 2014, that would allocate to customers the fixed, variable, and lost and unaccounted-for gas costs from the Company's deferred Account No. 186 balance. The Company notes that, under Order No. 32793, the Company's deferred variable gas cost credits included those associated with liquefied natural gas (LNG) sales from the Company's Nampa, Idaho facility.

The Company says the proposed overall price changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to the Company's customers. The Company notified customers about the Application and price changes through a formal Customer Notice and a Press Release.

THE COMMENTS

The Commission received one public comment and comments from Commission Staff. The public commenter opposes the proposed rate increase because the cost of natural gas is down and supplies are more than adequate. Staff confirms that the filing will not change the Company's earnings, that the deferred costs are prudent, and that the WACOG request is reasonable. Staff Comments at 2. Staff says the Company effectively manages its pipeline capacities and natural gas storage assets to benefit customers (*id.* at 10), and the Company has changed its hedging ratios to match current market conditions and protect customers from future upward price risk. *Id.* at 6-7.

Staff notes that the Company's proposed WACOG—an increase from $0.3349 per therm to $0.3734 per therm—would be the first increase following six consecutive decreases and be among the lowest since the 2000 WACOG in nominal dollars. Comments at 3-4. Staff reviewed the market fundamentals and opines that the Company's executed hedges were prudent and the estimated index prices for future delivery are reasonable. Staff says the WACOG request is reasonable, and that the Commission should approve it. Staff also recommended the Company return to the Commission if prices materially deviate from the proposed rates during the upcoming year. *Id.* at 3-6.

Pursuant to Order No. 32653, the Company included temporary credits in its October 1, 2012 prices. Staff notes that the main goal of including the temporary credits in prices was to enable the Company to pass deferred gas cost charges and benefits to its customers. Staff says the new temporary credits consist of: (1) about a $3.9 million credit in benefits generated by releasing some pipeline capacity; (2) another $8.8 million credit arising from the collection of pipeline capacity costs, the true-up of expenses from the 2012 PGA, and capacity release credits generated from the release of the Company's pipeline capacity; (3) the $3.1 million deferred surcharge balance, which is the difference in the commodity costs that the Company actually paid for gas and the WACOG that was included in rates; and (4) a small credit recorded to reflect the agreed percentage of LNG sales returned to ratepayers per Order No. 32793. Staff says the new temporary credits total $9.6 million. But when offset by the removal of prior temporaries (including lost and unaccounted for (LAUF) gas), the credit decreases to $1.9 million. Staff agrees with the Company's proposed temporary credit balance. Comments at 7-8.

LAUF gas is the difference between volumes of natural gas delivered to the distribution system and volumes of natural gas billed to customers. Potential sources of LAUF gas vary, but it is primarily due to meter malfunctions that cause measurement error at the city gate or at customers' meters. LAUF gas may also occur if the Company's billing system is incorrectly programmed or if an industrial customer has changed its demand and, consequently, has an incorrect meter size. When discussing recovery of LAUF gas, Staff notes that the Company is in a position to credit customers this year because LAUF gas amounts are less than the amounts included in Commission-approved base rates from 1985. Staff believes the Company's LAUF gas estimates are reasonable and accurate and below the cap established by the Commission in Order No. 30649 (i.e., the Company's LAUF gas is less than 0.85% of total throughput). Staff recommended that the Commission allow the Company to credit customers a total of $444,316 for LAUF gas. Comments at 10-12.

Staff also recommended the Company's future PGA filings include more information in the "Lost and Unaccounted for Statistics" workpapers. Specifically, Staff recommended that the Company not only summarize the amount of lost gas due to line breaks, but for all causes. This will help the Staff evaluate the Company's LAUF gas situation, operations and procedures. Lastly, Staff recommended that the Company change how it prices gas lost through broken lines. The Company currently uses the WACOG to price the lost gas. But the WACOG does not include the Company's fixed costs to transport the gas through pipelines or the cost of the Company's storage facilities. Staff thus recommended that the Company bill the responsible party at the full retail rate when pricing gas lost through a line break. *Id.*

FINDINGS AND DISCUSSION

The Commission has reviewed the record for this case, including the Application and comments. The Company is a public utility, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502. 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 Company's costs for the purchase of natural gas from suppliers – including transportation, storage and other related costs. *See* Order No. 26019. The Company's earnings are not to be increased from changes in prices and revenues resulting from the PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

The Commission has examined the Company's Application and gas purchases for the year, and finds that the Application should be granted and the tariffs approved as filed. We find that the Company's costs to buy natural gas and transport it to the Company's system have increased by about $10.3 million, and that the Company's current rates are insufficient to enable it to reasonably recover these costs. We find that the Company should be allowed to increase its WACOG from $0.3349 per therm to $0.3734 per therm, and that the resulting customer rates are just, reasonable and sufficient to enable the Company to recover its increased natural gas costs.

The Commission also finds that the Company's proposed temporary credit balance is accurate. With regard to LAUF gas, the Company should ensure that its future PGA filings summarize the number of therms lost due to all causes, not just due to line breaks. Further, the Commission finds it reasonable for the Company to bill the party that is responsible for the line break at the full retail rate when pricing lost gas.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted. The Company is authorized to pass through its proposed adjustments, surcharges, and credits to customers as filed. The Company shall establish a WACOG of $0.3734 per therm. The tariff sheets filed with the Company's Application are hereby approved, effective October 1, 2013.

IT IS FURTHER ORDERED that the Company shall promptly apply to amend its WACOG if natural gas prices materially deviate from the WACOG approved in this Order.

IT IS FURTHER ORDERED that the Company's future PGA filing shall be accompanied by LAUF gas statistics work papers that include the number of therms lost from all causes, not just from line breaks. Further, in the future the Company shall bill the full retail rate to the responsible party when pricing lost gas due to a line break.

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 25th day of September 2013.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:INT-G-13-05_kk2