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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** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Intermountain Gas Company's Application.

BACKGROUND

On August 19, 2013, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application and requested a Commission Order, under Idaho Code §§ 61-307 and 61-622, to institute new rate schedules that will increase its annualized revenues by $10.3 million (about 4.15%). The Company asks that the Commission process the Application by Modified Procedure, and that the new rates take effect October 1, 2013.

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 Application, the Company proposes increasing the Weighted Average Cost of Gas (WACOG) from the currently approved $0.33489 per therm to $0.37341 per therm. The Company explains that significant shale gas reserves exist, but recent improvements in the economy and an increase in natural gas-fired electric generation have increased demand and placed upward pressure on natural gas prices. 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 as outlined on Exhibit No. 7. The Company also proposes temporary price adjustments for the 12-month period ending September 30, 2014, which 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 pursuant to Order No. 32793, its 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 says it has notified customers about the Application and price changes through a formal Customer Notice and a Press Release.

STAFF ANALYSIS

Staff has thoroughly reviewed the Company's Application and gas purchases for the year to verify that the filing will not change the Company's earnings, that the deferred costs are prudent, and that the WACOG request is reasonable.

In this year's PGA, the Company proposes raising total customer rates by about $10.3 million. This increase is due to an increase in costs billed to the Company from firm transportation providers, an increase in the WACOG, an updated customer allocation of gas-related costs pursuant to the Company's PGA provision, 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 benefits resulting from Intermountain's management of its storage and firm capacity rights on various pipeline systems. The temporary surcharges and credits in the Company's current prices during the past 12 months, pursuant to Case No. INT-G-12-01, were also eliminated. These changes would increase overall prices for Intermountain's RS-1, RS-2, GS-1 and LV-1 customers and decrease overall prices for Intermountain's T-3, T-4, and T-5 customers as follows:

Table 1

Customer Class:	Proposed Change in Class Revenue	Proposed Average Change in $/Therm	Proposed Average % Change	Proposed Average Price $/Therm
1 Residential	$561,315	.01616	1.88%	.87699
RS-2 Residential	$5,282,798	.02887	3.92%	.76462
GS-1 General Service	$5,202,273	.04946	7.26%	.73088
LV-1 Large Volume	$245,837	.06797	14.96%	.52240
T-3 Transportation	($413,032)	(.00360)	(17.67%)	.01677
T-4 Transportation	($529,255)	(.00361)	(7.91%)	.04205
T-5 Transportation	($70,681)	(.00360)	(10.78%)	.02981
	$10,279,255		4.15%	

The overall effect of the Company's proposed changes is to increase the Company's annual revenue by $10,279,255. This increase is comprised of the following items:

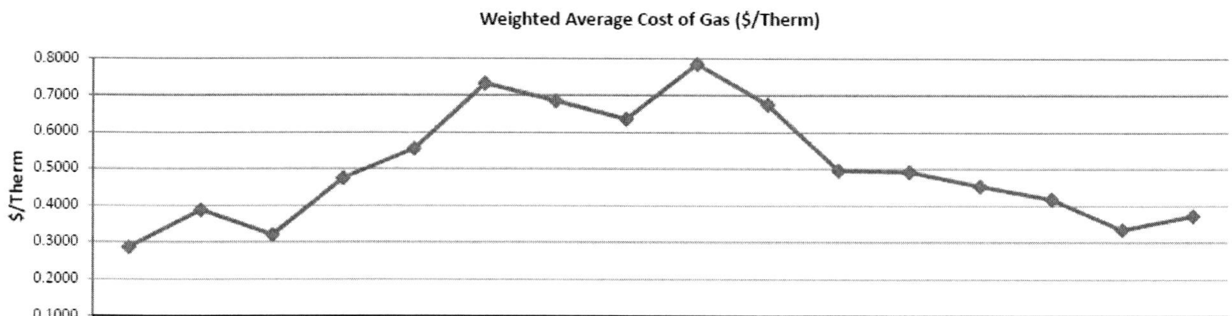
Table 2

Deferrals:		
Removal of INT-G-12-01 Temporary Credits	$9,816,649	
Removal of INT-G-12-01 Lost and Unaccounted for Gas	($2,138,220)	
INT-G-13-05 Temporary Credits	($9,601,616)	
Total Deferrals		($1,923,187)
Lost and Unaccounted for Gas (INT-G-13-05)		($444,316)
Reallocation of fixed costs		($2,103,424)
Changes in the Weighted Average Cost of Gas		$12,577,507
Fixed Cost Changes:		
Northwest Pipeline	$2,190,264	
New Upstream Capacity Costs	$192,410	
SGS & LS Changes	($538,771)	
Other Storage Facilities Cost Changes	$328,771	
Total Fixed Cost Changes		$2,172,674
Total Annual Price Change		$10,279,255

Weighted Average Cost of Gas (WACOG)

The Company proposes to increase the WACOG from $0.3349 per therm to $0.3734 per therm. The WACOG is calculated based on the anticipated cost of the Company's executed hedges, current underground storage, and its estimated index price for future deliveries. The volume-weighted average cost is estimated by averaging the sum of forward natural gas prices multiplied by projected purchase volumes for each supply source and contracting instrument. As reflected in Chart 1, the proposed WACOG will be the first increase following six consecutive decreases, and is among the lowest since the 2000 WACOG in nominal dollars.

Chart 1



	'00	'01	'02	'03	'04	'05	'06	'07	'08	'08*Dec.	'09**	'10	'11	'11*Dec.	'12**	'13 Prop.
WACOG ($/Therm)	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	0.3349	0.3734

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

Staff reviewed the market fundamentals to determine whether the Company's executed hedges and estimated index prices for future delivery are reasonable. Specifically, Staff reviewed data and reports from: (1) the Energy Information Administration (EIA); (2) the Northwest Gas Association (NWGA); (3) the Northwest Power and Conservation Council (NPCC); (3) the NYMEX/NGX Futures; and (4) the Intercontinental Exchange (ICE). Overall, Staff believes the Company's methodology and calculations are accurate, and that the WACOG is reasonable given market conditions.

Market Fundamentals

Weak economic conditions, the prolific increase in the supply of shale and unconventional gas, and several other factors have contributed to some of the lowest gas prices in the last decade. As the economy shows signs of improvement, we are beginning to see upward pressure on prices. Other potential factors contributing to higher prices include:

1) Increased gas-fired electric generation due to aggressive regulation of carbon emissions from coal plants;

2) Lower storage inventory levels and flattening production compared to 2012;
3) Increased demand from natural gas fleet vehicles;
4) Increased demand for exports of LNG from Canada and United States; and
5) Increased demand from gas-to-liquid projects.

The NWGA 2013 Gas Outlook lists the Boardman, Oregon and Centralia, Washington coal plants as examples of two regional coal plants directly impacted by environmental regulations. Both plants will close. According to the NWGA, both plant operators say they intend to replace at least some of that generation capacity with gas-fired generation. The NWGA also believes natural gas-fired generation will be necessary to balance load given the large investments in intermittent wind resources in Oregon and Washington. The NWGA thus expects average gas consumption for electric generation to increase 2.6% per year through 2022 as electric utilities increasingly rely on natural gas generation to fill baseload needs. Conversely, the EIA expects projected year-over-year increases in natural gas prices to contribute to a decline in natural gas used for electric power generation. Specifically, it expects overall consumption for electric generation to decline by nearly 14% by 2014 compared to 2012 levels.

Price Analysis

Staff reviewed the projected monthly cost of purchased gas that the Company used to determine the proposed WACOG, and compared it to several sources to evaluate future price trends. Staff believes the Company's proposed WACOG of $3.73 per MMBtu is conservative but reasonable compared to recognized natural gas price benchmarks. Staff analyzed the NYMEX/NGX futures prices at each of the three hubs where Intermountain buys gas.[1] Using the Company's estimated volume allocation percentages for the three hubs where it buys gas, Staff calculated $3.40 per MMBtu as the volume-weighted cost of purchased gas.

The Company's monthly purchased gas costs are generally higher than Staff's estimates because of the premiums embedded in the price of the Company's hedged contracts and purchasing strategies. But if prices increase as forecasted, the older hedges may be less expensive than the spot or index purchases. By 2014, the EIA expects Henry Hub prices to increase by 6.4% compared to the 2013 price estimates, and 44% compared to 2012 prices.[2]

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[1] Prices are based on settlements that occurred on August 27, 2013.

[2] EIA, *STEO* (September 2013), Table5b. U.S. Regional Natural Gas Prices (http://www.eia.gov/forecasts/steo/report/).

Similarly, the NPCC expects Henry Hub prices to increase by 4.6% in 2014 when compared to 2013 price estimates. The NPCC expects AECO prices to increase by 6% in 2014 when compared to 2013 price estimates. For comparison purposes, the Company anticipates the average monthly spot price at AECO to be 13% higher than what was forecasted during last year's PGA, but the forecast is similar to the Company's actual procurement prices at AECO through July of this year.

Staff believes the Company's hedges were prudent and its approach for estimating the forward prices reasonable. However, the Company should continue to monitor its long-term contracts and nominated pipeline capacity. Based on Staff's review of the market fundamentals, the Company's weighted average cost of its current hedges, and the Company's estimated cost of forward-looking index purchases, Staff recommends the Commission accept the Company's proposed WACOG of $0.3734 per therm. Staff also recommends that the Company return to the Commission with a new filing if prices materially deviate from the proposed rates during the upcoming year.

Other Considerations

The Company allocates the volume-weighted average costs of gas to each customer class based on peak-day usages. Before 2012, the peak day used for allocating the volume-weighted average costs of gas occurred in 1990. But in the 2012 PGA, the Company started using a more recent and colder peak day to allocate the volume-weighted average costs of gas. Now, the Company allocates the volume-weighted average cost of gas based on usages that occurred on a peak day in 2009, instead of 1990. The resulting change does not reallocate costs much differently for any of the classes. Staff believes it is reasonable for the Company to allocate costs by using the more recent and colder peak day.

Risk Management and Gas Purchasing

The Company actively reviews current and future market conditions through its Gas Supply Risk Oversight Program to ensure its purchasing strategies: (1) provide adequate gas supplies to customers; (2) mitigate the adverse impact of significant price movements in the natural gas commodity; and (3) minimize the credit risk inherent in the implementation of certain price risk reducing strategies. Staff reviewed the Minutes to the Company's Risk Management meetings as part of its audit. The Company's strategies seem dynamic and involve flexibility to make decisions based on the fundamentals of the natural gas environment.

The Company's current mainline requirement is approximately 33,000,000 MMBtu's. Of that amount, about 28% is stored gas, 43% is hedged flowing supply, and 29% remains open to index or spot purchases. The average price of the Company's stored gas averages about $3.66 per MMbtu, whereas the average price of the hedged flowing supply is $3.75 per MMbtu. The table below compares the proposed WACOG hedging ratios with those from the past three regularly scheduled PGA filings. In comparison to previous years, it shows how the Company has increased its hedging ratios during the summer and non-summer months in anticipation of higher prices.

Table 3

	% Locked-in Gas by PGA Year			
	2010	2011	2012	2013
Non-Summer Months (Oct.-Mar.)	68.1	69.4	63.3	78.5
Summer Months (Apr.-Sept.)	28.7	0.0	44.5	48.1
Full Year	58.5	52.4	59.0	71.4

Overall, Staff believes that Intermountain's adjustments to its hedging ratios match current market conditions, and protect consumers from future upward price risk. The Company may be less capable of acting on dropping prices. But upward price risk appears to be more likely according to the NYMEX futures price confidence intervals published by EIA[3] and the low and high forecasts published by the Northwest Power Conservation Council.[4]

Temporary Surcharges and Credits

Pursuant to Order No. 32653, Intermountain included temporary credits in its October 1, 2012 prices for the principal reason of passing back to its customers deferred gas cost charges and benefits. The temporary credits consisted of three separate items: (1) a credit of approximately $3.7 million in benefits generated by releasing some pipeline transportation capacity; (2) an additional credit of $4.8 million attributable to the collection of pipeline capacity

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[3] See EIA, Short-Term Energy Outlook, September 2013, futures price confidence intervals.

[4] See Northwest Power Conservation Council, Seventh Power Plan Fuel Price Forecast, July 2013.

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 current credit items total $9.8 million. The current PGA also contains about $2.1 million in a temporary surcharge for Lost and Unaccounted for Gas (LAUF Gas) resulting in a net temporary credit of about $7.7 million.

The new temporary credits consist of four items: (1) a roughly $3.9 million credit in benefits generated by releasing some pipeline transportation capacity; (2) another $8.8 million credit attributable to the collection of pipeline capacity costs, the true-up of expenses from the 2012 PGA, and capacity release credits generated from the release of Intermountain's pipeline capacity; (3) the $3.1 million deferred surcharge balance, which is the difference in the commodity costs that Intermountain actually paid for natural gas and the WACOG that was included in rates; and (4) a very small credit recorded to reflect the agreed percentage of LNG sales returned to the ratepayers.[5] The temporary credits total $9.6 million. But when offset by the removal of prior temporaries (including LAUF Gas), the credit decreases to $1.9 million. Staff has confirmed the various temporary credit amounts and agrees with the Company's proposed temporary credit balance.

Natural Gas Storage

Intermountain utilizes natural gas storage to: (1) avoid high winter prices by procuring gas during the summer when prices are cheaper; and (2) provide system designed peaking capacity for unusually high demand events or backup for potential pipeline disruptions and curtailments.

The Company typically uses underground storage to fulfill its winter storage needs and shield consumers from higher winter natural gas prices. The Company has 94 million therms in contracted underground storage capacity at Northwest Pipeline's Jackson Prairie and Questar Pipeline's Clay Basin facilities. This capacity will be filled going into the winter heating season, and it represents 36% of the Company's November 2013 through April 2014 supply requirement. Through various supply agreements, these storage injections have been locked in at prices ranging from $0.335 to $0.413 per therm. These rates bracket this year's proposed WACOG.

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[5] See discussion in *Liquid Natural Gas (LNG) Sales* section below.

The overall differences between the cost of stored gas and the WACOG will be reconciled in customer rates next year.

Liquid Natural Gas (LNG) Sales

The Company utilizes LNG storage throughout the year to meet system peaks and to supplement local flows due to pipeline congestion or curtailments. Intermountain has 18.5 million therms in total LNG storage capacity at Northwest Pipeline's Plymouth facility and two Company-owned facilities in Nampa and Rexburg, Idaho. LNG represents about 15% of the Company's total storage. In the past, the Company kept only 50% of its LNG capacity full throughout the winter. But on January 23, 2013, the Company filed Case No. INT-G-13-02 and asked for authority to sell LNG. In Final Order No. 32793, the Commission authorized the Company to sell LNG under certain conditions.

1. The Company shall obtain Commission approval for any LNG sales contracts that materially differ from the standard contract.
2. The Company shall use future capital expense funds only to replace existing Nampa plant capital infrastructure due to accelerated wear and tear from producing LNG sales.
3. The Company shall provide a 2.5 cent credit for every gallon of LNG sold for Operations and Maintenance (O&M) related expenses and pass 100% of this amount to utility customers through the PGA.
4. The Company shall credit 50% of total net margin to ratepayers for sales of LNG through the PGA up to $1.5 million at which time it adjusts to 70%.[6]

Intermountain Gas recorded two LNG sales in this PGA filing, one in January 2013 and another in March 2013. Staff examined the sales entries to confirm whether the Company properly recorded the 2.5 cent credit per gallon for O&M ($985), the 50% of total net margin credit for ratepayers ($4,500), and the 2.5 cent credit for future capital expense ($985). The O&M and the net profit credits were properly recorded and are reflected in Table 2 Temporary Credits.

The future capital expense credit is recorded in an asset account and no charges for capital expense have been recorded against it. Staff consulted with the Company on the policy for future recording of credit and expenses. The Company said it is still working out the details.

[6] For a complete list of Final Order requirements see Case No. INT-G-13-2 Final Order # 32793.

Staff recommends the Company provide details for the proposed accounting treatment of capital credits and off-setting capital expenditures for next year's PGA filing.

The Company has recorded an additional sale of LNG gas in July. This sale will be reconciled in the next year's PGA along with the associated credits.

Pipeline Transportation

Intermountain delivers transported natural gas to its city gates through Northwest Pipeline, an interstate transportation provider whose pipeline runs through Intermountain's service territory. The Company also moves gas from Canada to Northwest Pipeline by utilizing capacity on Gas Transmission Northwest (GTN), TransCanada's Foothills Pipeline system (Foothills), and its Alberta system known as Nova Gas Transmission (NOVA). Northwest Pipeline and its shippers settled Northwest Pipeline's recent rate case filing resulting in about a 9% price increase effective January 1, 2013. Case No. INT-G-12-01 incorporated this increase for a pro-forma nine-month period. This PGA includes the annualized impact pertaining to the costs associated with the additional three months. Staff examined the supporting documents relating to lines 1-19 of Exhibit No. 4, which detail the proposed changes to Intermountain's prices resulting from Intermountain's cost of storage, and interstate and upstream capacity from its suppliers.

Through the segmentation of the Company's transportation capacity on Northwest, the Company believes it has attained two distinct advantages: (1) significant cost mitigation through the re-marketing efforts of IGI Resources for certain of this segmented capacity; and (2) the providing of significant deliverability into Northwest at the Stanfield receipt point which allows access to Alberta based supplies, which the Company believes will deliver the lowest priced supply in future months. Staff has determined that the Company continues to effectively manage its pipeline capacities, along with its natural gas storage assets at Northwest Pipeline's Jackson Prairie and Questar Pipeline's Clay Basin storage facilities to the benefit of its ratepayers.

Recovery of Lost and Unaccounted for Gas

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 is primarily due to meter malfunctions that cause measurement error at the citygate 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.

This year the Company is in a position to credit customers because LAUF Gas amounts are less than the amounts included in Commission-approved base rates from 1985. In 1985, the Commission established $0.00182 per therm as the normalized unit cost that can be collected for LAUF Gas as part of base rates. This past year, the total normalized level of LAUF Gas embedded in base rates yields an amount of $1,114,285 of LAUF Gas already collected.[7] The total estimated October 2012 to September 2013 amount for LAUF Gas is only $716,775. The Company proposes that the difference of $397,510 be credited to customers for this year's LAUF Gas. When the true-up amounts from last year are included, the Company is proposing to credit to customers a total of $444,316 for LAUF Gas. For comparison purposes, the Company reports 2 million therms of LAUF Gas for this PGA year, which represents 0.32% of total throughput. Last year, the Company reported 4.5 million therms of LAUF Gas, which represented 0.76% of total throughput.

Staff reviewed the Company's LAUF Gas in three different ways. First, Staff reviewed the Company's Gas Loss Reports to determine if the Company's approach for estimating gas found during line breaks is reasonable. Second, Staff analyzed the Company's LAUF Gas workpapers to determine whether the Company's calculations were accurate and reasonable. Finally, Staff analyzed the Company's Annual Statistics on LAUF Gas to judge whether the new reporting format adequately summarized what used to be separately reported in the Company's semi-annual LAUF Gas reports. (Order No. 30913).

When known leaks and line breaks occur between the citygate and customers' meters, the Company completes a Gas Loss Report, which includes an estimate of gas that escapes from the pipeline during the break. These reports serve two purposes. First, they are totaled at the end of the year and subtracted from the annual LAUF Gas statistics. Second, they are used to calculate the cost billed to the responsible party. Staff reviewed these reports and found the quantity of gas to be close to what was reported for line breaks in Workpaper No. 8, Annual Statistics. However, during the audit, Staff discovered the Company using an outdated WACOG to price the lost gas due to a line break.[8] The outdated WACOG was higher than the current WACOG.

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[7] This is included in the Company's PGA application, more specifically, on page 1 of Workpaper No. 8.

[8] The Company was using $0.41812, when it should have used the current WACOG ($0.37340).

Staff recommends that in the future the Company bill the full retail rate to the responsible party when pricing the lost gas due to a line break. The WACOG does not include the Company's fixed costs to transport gas through the pipelines to its distribution system or the cost of the Company's storage facilities that allow it to procure low-priced summer gas for use during the non-summer.

Based on its examination, Staff believes the Company's methodology for estimating LAUF Gas is reasonable. Staff believes the Company's calculations are 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.) However, Staff recommends that in the future the Company include more information on page 2, Workpaper No. 8, Lost and Unaccounted for Statistics. Specifically, Staff recommends that the Company not only summarize the amount of lost gas due to line breaks, but for all causes. This will assist the Commission Staff in evaluating the results of the Company's LAUF Gas situation, operations and procedures. Staff recommends that the Commission allow the Company to credit customers a total of $444,316 for LAUF Gas.

CUSTOMER RELATIONS

Customer Notice and Press Release

The customer notice and press release were included in Intermountain's Application. The Application was received on August 9, 2013. Staff reviewed the customer notice and press release and determined they complied with the Commission's Rules of Procedure 125.04 and 125.05. IDAPA 31.01.01.125. The customer notice was mailed with cyclical billings beginning August 13, 2013 and ending on September 12, 2013.

Customer Comments

Customers were given until September 18, 2013 to file comments. As of September 6, 2013, one customer had submitted a comment. That customer says he opposes the increase because the cost of gas has declined and gas supplies are adequate.

Tariff Revisions

Staff identified several areas of Intermountain's tariffs that are in need of revision. For example, the description of who is eligible to receive service under the two available residential rate schedules is unclear. Intermountain has agreed to work with Staff in revising its rates schedules and discussing other changes that need to be made to update the General Service Provisions section of its tariff. The Company has indicated that it will file proposed revisions under a Tariff Advice for the Commission's consideration following the conclusion of this case.

Additionally, Staff is working with the Company to identify what actions the Company takes to verify that customers are placed on the appropriate rate schedule when service is initiated. Staff is also working with the Company to determine how the Company monitors usage of existing customers to make sure they are billed under the most appropriate rate schedule. For example, a residential customer on RS-1 who adds a natural gas water heater would benefit by switching to the RS-2 rate. Finally, Staff is reviewing the Company's customer communications to determine how customers are made aware of available rate options. Staff was unable to complete its investigation by the comment deadline in this case, and so has no recommendations regarding these issues at this time. Staff will continue to work with the Company and will report its findings to the Commission at a later date.

STAFF RECOMMENDATION

After thoroughly examining the Company's Application and gas purchases for the year, Staff recommends the Commission approve the Company's Application and filed tariffs increasing the annual revenue of Intermountain Gas Company by $10.3 million and establishing a weighted average cost of gas at $0.3734 per therm. However, Staff recommends that in the future the Company include the number of therms lost from all causes, not just from line breaks on its workpaper summarizing the lost and unaccounted for gas statistics. Staff also recommends the Company be required to bill the full retail rate to the responsible party when pricing the lost gas due to a line break.

Respectfully submitted this 18th day of September 2013.

Karl T. Klein
Deputy Attorney General

Technical Staff: Matt Elam
Sandra Walker
Marilyn Parker

i:umisc/comments/avug12.5kkmeswmp comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18TH DAY OF SEPTEMBER 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-13-05, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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