Office of the Secretary
Service Date
September 26, 2014

# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

| | | |
|---|---|---|
| **IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR AUTHORITY TO CHANGE ITS PRICES (2014 PURCHASED GAS COST ADJUSTMENT).** | ) ) ) ) ) ) | **CASE NO. INT-G-14-01**<br><br>**ORDER NO. 33139** |

On August 8, 2014, Intermountain Gas Company (the "Company") filed its annual Purchased Gas Cost Adjustment ("PGA") Application. The Company seeks to pass its increased gas costs to consumers through new PGA rates that would increase the Company's annual revenues by $6.7 million (about 2.64%). The new rates would take effect on October 1, 2014.

On August 20, 2014, the Commission issued a Notice of Application and Notice of Modified Procedure soliciting public input on the Application and setting a September 17, 2014 comment deadline. Order No. 33099. Commission Staff and four members 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 adjusts rates each year to reflect changes in the Company's costs to buy natural gas from suppliers—including transportation, storage, and other related costs. *See* Order No. 26019. A change in the PGA does not affect the Company's earnings. But a PGA change can cause customer rates to go up or down. In this Application, the Company proposes a PGA increase that would increase overall prices for customers. The Company says residential customers using gas for space and water heating would see a $1.89/month (3.81%) average increase, residential customers using natural gas only for space heating would see a $1.40/month (3.64%) average increase, and commercial customers would see a $0.31/month (0.15%) average increase.

The Company explains that its proposed PGA rates incorporate all changes in the Company's costs for firm interstate transportation capacity, including any price changes or projected cost adjustments implemented by the Company's pipeline suppliers and any volumetric adjustments in contracted transportation agreements that have occurred since the Company's last

PGA filing, Case No. INT-G-13-05. The proposed PGA would increase the weighted average cost of gas ("WACOG") to be recovered through the new rates from $0.37341 per therm to $0.39482 per therm.[1] Although significant shale gas reserves exist, the Company explains that the WACOG has risen because modest improvements in the economy and increased natural-gas-fired electric generation have increased demand and caused natural gas prices to rise. The Company notes, however, that natural gas prices remain much lower than they were a few years ago. The Company attempts to keep gas prices low by locking in large portions of its stored gas at lower prices, and by hedging other winter gas supplies.

As part of this Application, the Company seeks to provide its customers with $3.9 million in benefits arising from the management of the Company's transportation capacity. The Company also proposes to temporarily adjust prices for 12 months—from October 1, 2014 until September 30, 2015—to 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 reflects credits associated with liquefied natural gas (LNG) sales from the Company's Nampa, Idaho facility.

**THE COMMENTS**

Commission Staff and four members of the public filed timely comments.

The four public commenters oppose the Company's Application for three reasons. First, they express concern that commercial users will see a lesser average monthly bill increase (.15%) than residential users will see (3.81% or 3.64%, depending on whether the residential customer uses gas for space and water heating or just for space heating). Second, they argue that it is inequitable for the Company to receive a rate increase when its residential customers have not received increases in their income. Third, they question whether the Company is mismanaging its other business costs if its gas costs are 50% less than they were in 2005 but customer rates still increase.

Commission Staff noted that it thoroughly reviewed the Company's Application and gas purchases and verified that the Company's PGA proposal will not change the Company's

---

[1] The WACOG is the Company's average variable cost to buy and transport gas to satisfy its customers' estimated annual gas needs. While the WACOG includes the volumetric interstate transportation rate and city gate costs, it excludes fixed capacity costs for interstate transportation, liquid storage, and underground storage. The WACOG is about 66% of the Company's total annual gas cost. *See* Staff Comments at 4.

request is reasonable. Staff Comments at 2. For those reasons, it recommends approval of the Application.

Staff explains that this year's $6.7 million PGA increase reflects: (1) the pass through of transportation costs billed to the Company from firm transportation providers; (2) an increase in the Company's 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. *Id.*

Staff confirms that the Company's proposed WACOG is appropriate. Staff does note that this year's proposed WACOG—an increase from $0.37341 per therm to $0.39482 per therm—would be the second WACOG increase following several years of consecutive decreases. *Id.* at 4-5. However, Staff reviewed the market, the Company's weighted average cost of its current hedges, and the Company's estimated cost of forward-looking index purchases, and opines that the Company's proposed WACOG is reasonable. Staff thus recommended the Commission accept the proposed WACOG and direct the Company to return to the Commission with a new filing if prices materially deviate from proposed rates in the upcoming year. *Id.* at 5-6.

Staff also confirms that the Company bought gas at market prices and minimized risk to ratepayers. Staff explains that the Company supplies its mainline requirement with hedges, spot market purchases, and underground storage of gas purchased at lower, summer prices. The Company also sells LNG from its above-ground storage facility to provide customers with a $405,411 PGA credit while still using the LNG to meet its customers' peak-day gas needs. The Company also manages its interstate transportation capacity so it can sell surplus capacity in the market. Staff opines that the Company continues to manage its resource portfolio to provide price stability for customers. According to Staff, the Company's flexible approach allows it to opportunistically buy gas, manage storage, and use its interstate transportation capacity to lower fixed costs and benefit customers. *See id.* at 6-10.

Staff further confirms that the Company's proposed PGA surcharge for Lost and Unaccounted For ("LAUF") gas is reasonable. LAUF gas is the difference between the amount of natural gas delivered to the Company's distribution system at the city gate and amount of natural gas ultimately recorded at the customers' meters. Each year, the Company estimates its LAUF gas amount for inclusion in the PGA. The Company recovers its LAUF gas amount through a per therm surcharge if the amount is above the amount that is included in base rates. Conversely, the Company credits customers if the LAUF gas amount is below the amount that is included in base rates. This year, the Company says it under-collected LAUF gas, and it proposes to correct the under-collection through a $634,066 surcharge to customers. Although Staff found some minor errors in the Company's calculation, Staff opines that the errors will not impact customers and that the Company's proposed LAUF gas amount is reasonable. *Id.* at 10-11.

Staff notes that the Company also uses its LAUF gas reports to bill the party who is responsible for breaking a line, which in turn reduces annual PGA costs. In last year's PGA case, the Commission directed the Company to "bill the *full retail rate* to the responsible party when pricing lost gas due to a line break." Order No. 32897 (emphasis added). In this year's PGA filing, the Company explains that it interprets the "full retail rate" to include the WACOG, and the Residential Schedule No. 1 (RS-1) fixed costs of interstate transportation and storage. Staff notes that the true "full retail rate" could also include costs that are unrelated to the per therm cost of a line break, or that occur downstream of the line break (e.g., meter costs, A&G, O&M, ROR, taxes, etc.). But both the Company and Staff note that using the true "full retail rate" would be administratively burdensome for pricing lost gas, particularly when the party responsible for the line break is not a customer. Staff thus recommended the Company continue to price lost gas by using the WACOG and the RS-1 fixed cost of interstate transportation and storage to price lost gas. *Id.* at 11-12.

Staff took issue with how the Company used peak-day in allocating gas costs to customers. Staff explains that the Company allocates its fixed-gas costs to each customer class based on peak-day usages. Before 2012, the Company used a 1990 peak-day to allocate the volume-weighted average costs of gas, but since the 2012 PGA, the Company has used a December 2009 peak-day to allocate those costs. Staff reports that the Company exceeded the December 2009 peak-day usage in December 2013, but that the Company did not update its allocation factors to reflect the new peak because the Company determined that such a change would have an immaterial impact on customer class allocations. Staff states that the Company should objectively update its allocation factors to reflect the most recent peak day, regardless of whether the Company believes such a change would materially impact allocations. Staff thus recommended the Company update its peak-demand allocation factors in future PGA filings whenever a new peak day has occurred.

## DISCUSSION AND FINDINGS

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* §§ 61-501 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 the Company's costs to buy natural gas and transport it to the Company's system have increased by about $6.7 million, and that the Company's current rates are insufficient to enable it to reasonably recover these costs. We thus find the Application should be granted, and the Company should be allowed to increase its WACOG from $0.3734 per therm to $0.3948 per therm, and that the resulting customer rates are just, reasonable and sufficient to enable the Company to recover its increased costs.

With respect to how the Company bills for lost gas from line breaks, we accept Staff's and the Company's explanation that pricing such gas at the "full retail rate" would be administratively burdensome. We thus find it reasonable for the Company to continue billing responsible parties by pricing lost gas using the WACOG and the RS-1 fixed cost of interstate transportation and storage.

Lastly, we find it reasonable for the Company to objectively update its peak-demand allocation factors in the PGA filing following a new peak-day, regardless of whether the change would materially impact allocation to customer classes.

## O R D E R

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 $0.3948 per therm. The tariff sheets filed with the Company's Application are hereby approved, effective October 1, 2014.

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 in the future, the Company shall bill a party who is responsible for a line break to price lost gas using the WACOG and the RS-1 fixed-cost of interstate transportation and storage. The Company shall also update its peak-demand allocation factors in PGA filings following a new peak day.

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 26th day of September 2014.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:INT-G-14-01_kk2