BRANDON KARPEN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
IDAHO BAR NO. 7956

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

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## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR AUTHORITY TO DECREASE ITS PRICES (2016 PURCHASED GAS COST ADJUSTMENT).** | **CASE NO. INT-G-16-03**<br><br>**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 12, 2016, Intermountain Gas Company (the "Company") filed its annual Purchased Gas Cost Adjustment ("PGA") Application. The PGA adjusts rates up or down 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. With this Application, the Company proposes to *decrease* overall prices for customers and *decrease* the Company's annualized revenues by $17.2 million (7.11%).

The Company proposes to pass through to customers gas-related cost changes that would *decrease* the average bill of: (1) residential customers who use natural gas for space heating and water heating, by $3.48/month (7.55%); (2) customers who use gas for space heating only, by $2.31/month (6.50%); and (3) commercial customers by $14.23/month (7.34%). The Company proposes that the new rates take effect October 1, 2016.

The Company explains that its proposed price changes incorporate all changes in costs relating to the Company's 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.

The Company proposes decreasing the Weighted Average Cost of Gas ("WACOG") used to calculate its PGA rates from $0.32764 per therm to $0.29695 per therm. The Company explains that shale reserves and an abundant supply contributed to the proposed WACOG decrease. The Company states that it has entered into various price agreements to lock in the price for significant portions of its storage and other winter "flowing" supplies.

The Company states that 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 states that it has notified customers about the Application and price changes through direct customer notice and a press release.

**STAFF ANALYSIS**

Staff thoroughly reviewed the Company's Application and verified that the Company's PGA proposal would not impact the Company's earnings, that the Company's deferred costs are prudent and properly calculated, and that the Company's WACOG request is reasonable.

The Company states that the decrease in rates is attributable to: (1) decreased transportation costs; (2) a decrease 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 relating to the Company's deferred gas cost accounts; and (5) benefits resulting from the Company's management of its storage and firm capacity rights. The temporary surcharges approved in last year's PGA Order No. 33386 have also been eliminated. Table 1 below summarizes the impact of the Application's proposed changes on customer classes:

**Table 1: Summary of proposed changes on customer classes**

| Customer Class: | Proposed Change in Class Revenue | Proposed Average Change in $/Therm | Proposed Average % Change | Proposed Average Price $/Therm |
|---|---|---|---|---|
| RS-1 Residential | $ (1,834,368) | (0.05776) | -6.50% | 0.83049 |
| RS-2 Residential | (9,917,867) | (0.05678) | -7.55% | 0.69519 |
| GS-1 General Service | (5,191,513) | (0.05071) | -7.34% | 0.64006 |
| LV-1 Large Volume | (498,910) | (0.08739) | -17.65% | 0.40773 |
| T-3 Transportation | (948) | (0.00002) | -0.11% | 0.01788 |
| T-4 Transportation | 213,988 | 0.00086 | 2.80% | 0.03161 |
| T-5 Transportation | 5,161 | 0.00068 | 0.67% | 0.03330 |
| | $(17,224,457) | | -7.11% | |

The overall effect of the Company's proposed changes is a decrease in annual revenues of $17,224,457. This decrease is comprised of the following items detailed in Table 2:

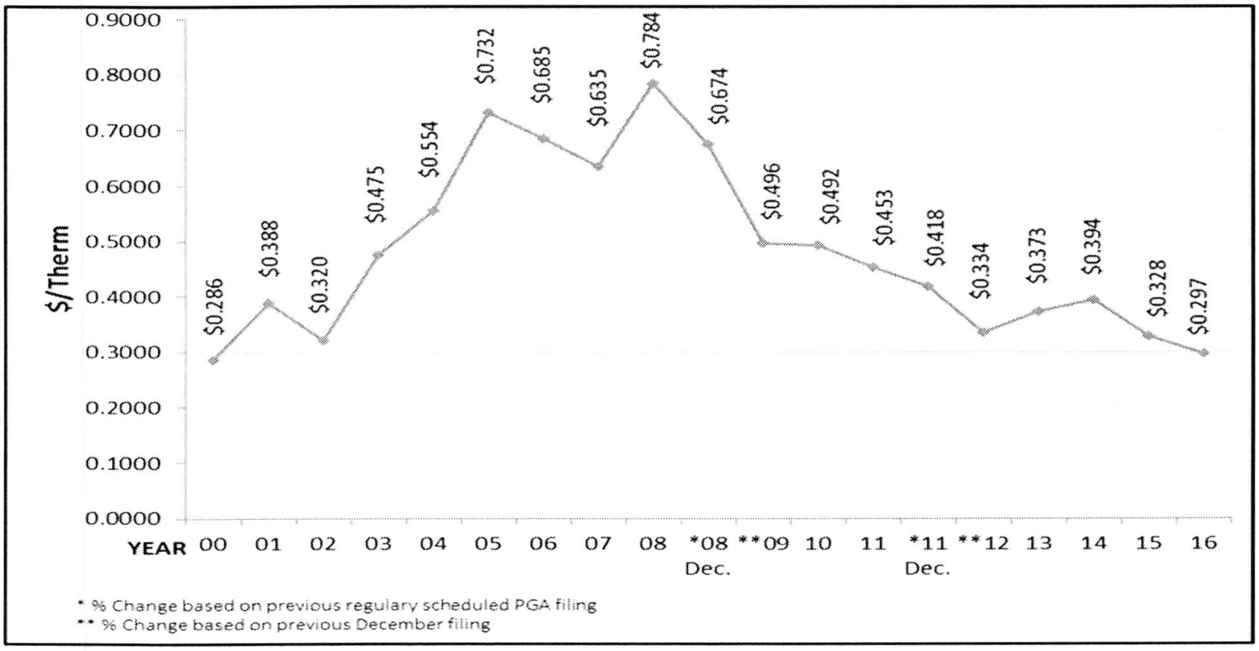
**Table 2: Proposed Changes to Annual Revenue**

| | | |
|---|---|---|
| **Deferrals:** | | |
| Removal of INT-G-15-02 Temporary Credits and Charges | | $ 3,814,294 |
| Additional INT-G-16-03 Temporary Credits and Charges | | |
| Fixed Deferred Gas Costs | $(11,223,766) | |
| Variable Deferred Gas Costs | (1,871,097) | |
| Lost and Unaccounted for Gas | (1,458,962) | |
| LNG Sales Credit | (236,805) | |
| Total Additional Temporary Credits and Surcharges | | $ (14,790,630) |
| **Total Deferrals** | | **$ (10,976,336)** |
| **Changes in WACOG** | | **$ (9,652,489)** |
| **Reallocation and True-Up of Fixed Costs** | | **$ 3,563,988** |
| **Fixed Cost Changes:** | | |
| NWP Full Rate Reservation | $ (234,550) | |
| NWP Discounted Reservation | 193,540 | |
| Upstream Full Rate | (174,059) | |
| Upstream Discounted | 71,518 | |
| Storage Capacity Fixed Costs | (16,069) | |
| **Total Fixed Cost Changes** | | **$ (159,620)** |
| **Total Annual Revenue Change** | | **$ (17,224,457)** |

## Weighted Average Cost of Gas (WACOG)

The WACOG is the Company's average variable cost to buy and transport gas to satisfy its customers' estimated annual gas requirements. The WACOG includes the volumetric interstate transportation rate, city gate costs, IGI Resources administrative fees, and Gas Technology Institute (GTI) charges. It does not include fixed capacity costs for interstate transportation, liquid storage, and underground storage. The proposed WACOG is $0.29695 per therm. This is $0.03069 or 9.4% per therm lower than the WACOG established in the 2015 PGA. Chart 1 shows the Company's historical WACOG:

Chart 1: Weighted Average Cost of Gas (Per Therm)




*Market Fundamentals & Price Analysis*

Although the Company has hedged most of its forecasted throughput at fixed prices, market fluctuations can impact the WACOG. Thus, Staff analyzed the Company's projected cost to purchase natural gas, and compared the Company's forecast to forecasts from national and regional organizations, including the Energy Information Administration ("EIA"), the Northwest Gas Association ("NWGA"), and the Northwest Power and Conservation Council ("NWPCC").

Of particular interest, the EIA projects Henry Hub prices will increase from an average of $2.41/MMBtu in 2016 to $3.01/MMBtu in 2017. Regionally, customers benefit from lower prices at the Sumas, Rockies, and AECO hubs when compared to the Henry Hub prices. Staff examined futures prices for the upcoming PGA year to determine price differentials between the Henry Hub and hubs the Company utilizes. For the PGA period, price differentials are AECO $-0.5527, Sumas $-0.0616 and Rockies $-.0823. The Company primarily purchases from AECO.

Based on Staff's analysis of the market, weighted average cost of the Company's hedges, and estimated cost of forward-looking index Company purchases, Staff believes that the Company's WACOG of $0.29695 per therm is reasonable. Staff recommends that the Commission accept the proposed WACOG and direct the Company to return to the Commission with a new filing if prices significantly deviate from proposed rates during the forthcoming year.

**Risk Management**

Staff scrutinized how the Company manages price and risk given the Company's market purchases, storage, and interstate transportation capacity. Staff also analyzed the Company's operations and business practices to determine whether the Company purchased gas at market prices in a way that minimized risk to ratepayers. Staff found that the Company's approach is flexible, allowing it to opportunistically buy gas, manage storage, and utilize interstate transportation capacity as market conditions change. Overall, the Company's strategy and practices associated with managing its resource portfolio provide price stability for customers.

The Company fulfills its mainline requirement with hedges, spot market purchases, underground storage, and LNG storage. Underground storage enables the Company to purchase gas for the upcoming heating season during the summer when natural gas prices are typically lower. When opportunities are present, the Company manages its interstate transportation capacity, selling surplus in the market.

*Purchasing*

Staff analyzed the Company's purchasing practices to determine if the Company reasonably adapted them to meet current market conditions. Similar to last year, about 32% of the Company's total throughput are index or spot purchases. The Company's hedged supply went from 46.7% of total throughput last year to 48.1% this year. Including the Company's storage gas, about 68% is essentially hedged which is the same as last year. Staff believes the Company's hedging ratio adjustments compliment current market conditions, particularly since natural gas prices are at historical lows. The Company continues to utilize index or spot purchases, allowing it to further take advantage of lower prices and react to upward price risk.

*Natural Gas Underground Storage*

Staff analyzed the Company's practices for utilizing underground storage. The Company plans to withdraw about the same amount (approximately 28%) of its underground storage to meet total throughput.

According to the Company, its management of storage assets benefits customers. Management of the Company's storage assets at Jackson Prairie and Clay Basin result in $1.8 million savings. Because gas added to storage is procured during the summer season when prices are typically lower, the Company's cost of storage gas is typically lower than what could be procured in winter months. The Company has also entered into various fixed price agreements for portions of underground storage and other winter flowing supplies to further stabilize prices.

*LNG Storage*

In Order No. 32793, the Commission authorized the Company to sell LNG from its excess capacity at its Nampa LNG facility to non-utility customers. Pursuant to that Order, the Company provides a credit to ratepayers of 2.5 cents per every gallon of LNG sold for O&M related expenses. Additionally, the Company is required to share 50% of the total net margin from the non-utility sale of LNG with ratepayers, up to $1.5 million, and then 70% on any amounts greater than $1.5 million. In this Application, the Company proposes to credit ratepayers $236,805 for their share of the revenues from the non-utility sale of LNG. Staff has reviewed the Company's non-utility sales of LNG, and verified that the credit to ratepayers has been calculated correctly.

*Interstate Transportation*

The Company delivers domestically produced natural gas to its city gates through Northwest Pipeline. The Company also delivers natural gas from Canada by using capacity on Gas Transmission Northwest (GTN), TransCanada's Foothills Pipeline system (Foothills), and TransCanada's Alberta system known as Nova Gas Transmission (NOVA).

Permanent transportation and storage costs reflect a net decrease totaling almost $160,000 relative to last year. This decrease is driven in large part by rate changes of all three upstream transportation providers that reduced the Company's upstream transportation charges by around $103,000. Additionally, renegotiation of a previously full rate contract with Northwest Pipeline to a discounted rate contract[1] reduced transportation costs by around $41,000. Finally, the cost of domestic gas purchased from Northwest Pipeline is slightly reduced to reflect the adjustment for the leap year.

*Capacity Release Revenue*

The Company generally utilizes 100% of its available capacity during the winter months. During non-winter months, the Company seeks to maximize value by selling excess available capacity on the open market. During the 2016 PGA year, revenues from the sale of excess capacity totaled $10,511,397. The Company proposes to pass back this amount to customers. This amount is an increase of approximately $1.2 million over the previous year's revenue, and can be attributed to the Company selling more excess capacity due to warmer than normal weather. The 2016 total of $10,511,397 includes revenues from releases on a segment of Northwest Pipeline and releases on pipelines delivering natural gas from Canada.

**Lost and Unaccounted for Gas (LAUF Gas)**

LAUF Gas is the difference between the volume of natural gas delivered to the distribution system at the city gate and the volume of gas billed to customers at the meter. The Company recovers LAUF Gas amounts through a per therm surcharge if the amount is above what was included in Commission-approved base rates. Conversely, the Company credits customers if the amount is below what was included in base rates.

This year, the Company's estimated LAUF Gas rate of 0.03% is *below* the maximum allowable level as specified in Commission Order No. 30649.[2] The estimated deferral account balance credit of $1,458,962 as of September 30, 2016, listed in Table 2 will be credited to customers if the PGA filing is approved.

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[1] Discount to Reservation Charge under Northwest Pipeline Rate Schedule TF-1.

[2] The Company uses actual LAUF Gas results through August and estimates the amount of LAUF Gas from October through September. Commission Order No. 30649 caps the Company's allowable LAUF Gas at .85% of throughput.

*Line Break-Lost and Unaccounted for Gas*

The current Line Break Rate is \$0.55674 per therm. The Company proposes to decrease the Line Break Rate to \$0.54067 per therm. The proposal includes a \$0.24372 Fixed-Cost Component per therm, and a \$0.29695 Variable-Cost Component per therm for a total of \$0.54067. Both components of the Line Break Rate are determined annually with the PGA filing. Staff represents that the Company correctly calculated the proposed Line Break Rate consistent with Order No. 33139.

*Demand Allocation Factors*

As outlined in the Company's PGA tariff, the fixed cost of gas is allocated based on peak-day usage. Last year, the Company continued to use the 2013 peak day of 63 heating degree days. Staff learned the Company reviewed peak days before this filing, and updated its allocation factors. According to the Company, the updated allocation factors include 57 heating degree days. The allocated fixed cost of gas is then divided by normalized sales volumes for each class based on a Rolling 30 year average definition of normal weather.

Warmer than normal weather in 2015 and the removal of an extremely cold year from the rolling average, lowers the billing determinants causing fixed costs to be collected over fewer therms. This results in an increase in projected fixed costs collection of \$3,563,988. Any difference between the actual fixed cost of gas and fixed costs collected from Intermountain's customers will be deferred and included in next year's PGA filing.

**Customer Billing**

Last year, the Company implemented a new Customer Care and Billing System. Among the resulting changes was a new bill format. Staff was concerned about changes in how the Company itemized charges on bills. Staff determined that the itemized charges added up to the total cents per therm charge authorized by the Commission. However, Staff could not consult the Company's tariff to verify the accuracy of each separately itemized charge as it appeared on customer bills. In addition to the inability to verify charges, Staff was also concerned about the increased complexity of customer bills.

The Company agreed to work with Staff to resolve these issues and Staff and the Company reached agreement on how to revise the Company's tariff and bill statements to reflect the PGA's cost components. Intermountain Gas' revised tariff became effective July 1, 2016, and the resulting changes were included on customer bills beginning in August.

## CUSTOMER NOTICE AND PRESS RELEASE

Intermountain Gas filed copies of its press release and customer notice with its Application. Staff reviewed both documents and found that neither document informed customers that written comments regarding the utility's application may be filed with the Commission as required by Rule 125.04 of the Commission's Rules of Procedure (IDAPA 31.01.01). When Staff notified the Company of the omission on August 16, 2016, it corrected the customer notice posted on its website and revised the remaining notices being sent to customers.

In addition to the problem noted above, the customer notice and press release discussed two separate cases – its PGA (INT-G-16-03) and General Rate Case (INT-G-16-02) – under the caption "Intermountain Gas Company files for an overall decrease to its prices." Staff believes it is inappropriate and potentially misleading to focus customers' attention on the net impact of two separate cases. Although both Applications were filed on the same day, one case addresses a temporary rate adjustment and the other a permanent change in base rates. Staff notes that Rule 125.03 of the Commission's Rules of Procedure states in relevant part, "[t]he information required by this rule is to be clearly identified, easily understood, and pertain only to the proposed rate change." Staff recommends that in the future, the Company not issue any combined notice of separate Applications.

The customer notice was mailed with cyclical billings beginning August 15 and ending September 12. Most customers will have the opportunity to file comments on or before September 15, 2016.

## CUSTOMER COMMENTS

As of September 15, 2016, the Commission has not received any comments from customers regarding the price decrease proposed in this case.

## STAFF RECOMMENDATION

After examining the Company's Application, exhibits, workpapers, and gas purchases for the year, Staff recommends the Commission approve the Company's Application and filed tariffs to decrease the Company's annual revenue by \$17.2 million (7.11%) and establish a WACOG of \$0.29695 per therm. Staff also recommends that the Commission order the Company to continue to file its monthly Summary of Deferred Gas Costs report and quarterly WACOG projections.

Staff also recommends that the Company not issue any combined notice of separate Applications.

Respectfully submitted this 15th day of September 2016.

Brandon Karpen
Deputy Attorney General

Technical Staff: Kevin Keyt
Donn English
Bentley Erdwurm
Daniel Klein

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF SEPTEMBER 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-16-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

MICHAEL P McGRATH
DIR – REGULATORY AFFAIRS
INTERMOUNTAIN GAS CO
PO BOX 7608
BOISE ID 83707
E-MAIL: mike.mcgrath@intgas.com

RONALD L WILLIAMS
WILLIAMS BRADBURY
1015 W HAYS ST
BOISE ID 83702
E-MAIL: ron@williamsbradbury.com

Jo Nelson
SECRETARY