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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.	**CASE NO. INT-G-18-02** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure, Order No. 34137, issued on September 4, 2018, submits the following comments.

BACKGROUND

On August 10, 2018, Intermountain Gas Company ("Intermountain or "the Company") applied to the Commission for authority to change its rates, effective October 1, 2018, to reflect changes in gas-related costs. Application at 2.

The Company's rates include a base rate component and a gas-related cost component. The base rate component is intended to cover the Company's fixed costs to serve its customers – for example, the Company's costs for equipment and facilities to provide service – and rarely change. The current base rates were approved in Order No. 33887, Case No. INT-G-17-05. *See Id.*

The gas-related cost component of the Company's rates is at issue here. Specifically, with this Application, the Company seeks to change its rates resulting from: (1) costs billed to the Company from firm transportation providers (including Northwest Pipeline LLC); (2) a decrease in the Company's Weighted Average Cost of Gas (WACOG); (3) an updated customer allocation of gas-related costs under the Company's Purchased Gas Cost Adjustment (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; (5) benefits resulting from the Company's management of its storage and firm capacity rights on various pipeline systems; (6) a portion of the costs accrued related to the Company's general rate case; and (7) customer benefits generated by changes to the federal and state income tax codes. *Id.* at 3-4. The Company seeks to eliminate the temporary surcharges and credits included in its current prices during the past 12 months under Case No. INT-G-17-05. *Id.*

The changes will *decrease* rates for the Company's Residential (RS), General Service (GS-1), and Large Volume (LV-1) customers, and *increase* rates for its Transportation (T-3 and T-4) customers. *Id.* at 4. The current gas-related cost component of the Company's rates was approved in Order No. 33887, Case No. INT-G-17-05. *See Id.* The Company proposes to pass through to customers gas-related cost changes that would *decrease* the average bill of residential customers by $4.12/month (10%) and commercial customers by $21.89/month (11.9%). The Company proposes that the new rates take effect October 1, 2018. The Company's annualized revenues will decrease by approximately $24.5 million, but will not impact earnings. *Id.* at 2.

STAFF ANALYSIS

Staff examined the Company's Application, workpapers, and exhibits for this case and believes the PGA proposal would not impact earnings, that the deferred costs are prudent and properly calculated, and that the Company's WACOG request is reasonable. Staff thus recommends that the Company's Application be approved.

Table 1 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 Residential	$(15,632,398)	$(0.06675)	-10.00%	$0.60080
GS-1 General Service	$ (8,539,654)	$(0.07049)	-11.9%	$0.52163
LV-1 Large Volume	$ (505,240)	$(0.06852)	-17.25%	$0.32868
T-3 Transportation	$ 36,155	$ 0.00083	6.84%	$0.01297
T-4 Transportation	-------	-------	0.00%	$0.01220
TOTAL	**$(24,529,331)**	**$(0.03408)**	**-10.20%**	**$0.30011**

The overall effect of the Company's proposed changes is a decrease in annual revenues of approximately $24.5 million. The decrease is comprised of the following items detailed in Table 2 below.

Table 2: Proposed Changes to Annual Revenue

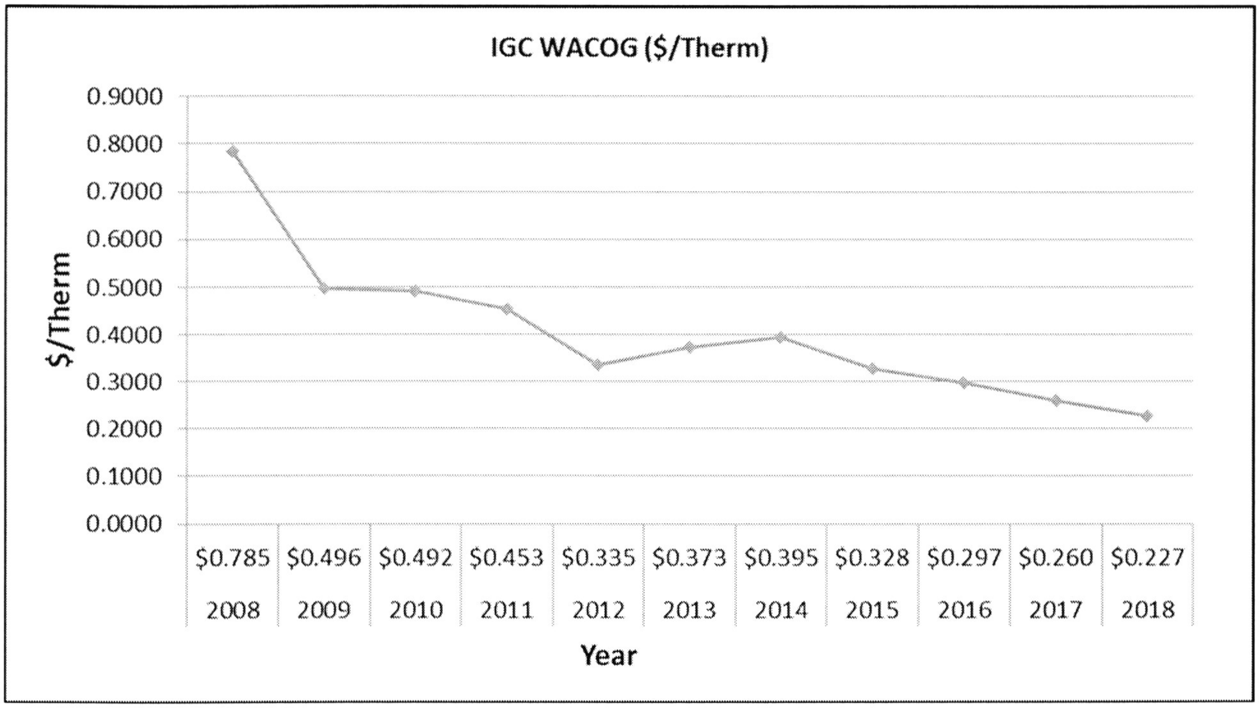
Deferrals:	
Removal of INT-G-17-05 Temporary Credits and Charge	$20,840,697
Additional INT-G-17-05 Temporary Credits and Charges	
Fixed Deferred Gas Costs	$(20,553,645)
Variable Deferred Gas Costs	(5,040,072)
Lost and Unaccounted for Gas	786,421
LNG Sales Credit	(529,445)
Deferred General Rate Case Costs	66,986
Tax Reform Deferral	(2,731,841)
Total Additional Temporary Credits and Surcharges	$(28,002,226)
Total Deferrals	**$ (7,161,529)**
Fixed Cost Changes:	
NWP Full Rate Reservation	$(619,134)
NWP Discounted Reservation	(44,126)
Upstream Full Rate	2,913,851
Upstream Discounted	(1,598,162)
Storage Capacity Fixed Costs	(31,648)
Total Fixed Cost Changes	$620,781
Changes in WACOG	$(11,955,049)
Reallocation and True-Up of Fixed Costs	$(6,034,110)
Total WACOG and True-Up Changes	**$(17,368,378)**
Total Annual Revenue Change	**$(24,529,907)**

The Company eliminated temporary credits and surcharges of $20,840,697, that were part of last year's PGA, Case No. INT-G-17-05. The temporary credits and surcharges proposed for the current PGA case total $28,002,226 in the rebate direction. These consist of market segmentation and capacity release revenues, interest, and per therm amortization of deferrals and over collections from last year's PGA. Additionally, a credit for off-system sales of Liquefied Natural Gas and benefits from the Tax Cuts and Jobs Act passed earlier this year, along with surcharges for expenses associated with the Company's general rate case and Lost and Unaccounted for Gas are included in the request. The Company included a fixed-cost collection adjustment that credits $6,034,110 back to customers pursuant to the provisions of its PGA tariff, which provides that proposed prices will be adjusted for the updated customer class sales volumes and purchased gas cost allocations.

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 WACOG proposed price is $0.22724 per therm which is a 12.7% decrease from the WACOG of $0.26020 per therm established in the 2017 PGA. The proposed decrease in the WACOG represents an approximate $11.9 million decrease in the Company's billed revenues. Chart 1 shows the Company's historical WACOG and illustrates how the cost of natural gas has continued to trend downward since its peak in 2008.

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



Market Fundamentals & Price Analysis

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

Risk Management

Staff scrutinized how the Company manages price and risk given the Company's market purchases, storage, and interstate transportation capacity to determine whether the Company reasonably purchased gas and minimized risk to ratepayers. The Company's approach is flexible, which allows 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 30% of the Company's total throughput is purchased at index or spot prices. The Company's hedged supply is slightly lower than last year (49%) at 45% of total throughput. Staff believes the Company's hedging ratio adjustments complement current market conditions, particularly since natural gas prices are at historical lows.

The Company continues to use index or spot purchases, allowing it to react to upward price risk. Including the Company's storage gas, about 70% is essentially locked-in gas which is slightly lower than last year. Since natural gas prices typically decline following non-summer months it could be economically advantageous to have a lower percentage locked-in during the summer months. Table 3 shows the Company's seasonal locked-in ratios over the last six years.

Table 3: Seasonal Locked-in Ratios[1]:

	2013	2014	2015	2016	2017	2018
Non-Summer Months (Oct.-Mar.)	79	74	78	82	80	77
Summer Months (Apr.-Sept.)	48	63	62	55	49	49
Full Year	71	72	74	76	73	70

Natural Gas Underground Storage and Interstate Transportation

Permanent transportation and storage costs reflect a net increase totaling $620,781 relative to costs in Case No. INT-G-17-05. According to the Company, its management of storage assets benefits customers. Management of the Company's storage assets at Northwest Pipeline's Jackson Prairie and Questar's Clay Basin result in $1.8 million savings. Because gas

[1] Locked-in gas includes storage volumes that are both hedged and index purchases.

added to storage is procured during the summer season when prices are typically lower than during the winter, 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.

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, TransCanada's Foothills Pipeline system, and TransCanada's Alberta system known as Nova Gas Transmission. The cost of gas from upstream transportation providers increased by $1.3M. This is primarily driven by a discounted contract that expired and was renewed as a full rate contract, and a short-term seasonal contract that was replaced by a long-term firm contract.

Management of Pipeline Capacity

Staff analyzed the procedures for maintaining and releasing pipeline capacity, and believes that Company's capacity planning is prudent at this time. The Northwest Pipeline is fully subscribed and additional capacity may not be available when needed as identified in the Integrated Resource Plan. Therefore, the Company holds excess capacity in order to be prudently prepared for future growth. The Company mitigates the cost of this excess capacity by releasing it on the market and passing the revenues gained by selling excess capacity to customers through the PGA.

In last year's PGA filing, the Company included a $4.33 million credit to customers embedded in its forecast. The Company's capacity release revenue for the current PGA is forecasted to be $5.45 million, which will be credited back to customers over the coming PGA year. If capacity release revenues exceed the $5.45 million embedded in the forecast, customers will receive an additional credit in the 2019 PGA. These credits are included in the Fixed Deferred Gas Costs listed in Table 1.

LNG Storage

In Order No. 32793, the Commission authorized the Company to sell LNG from its excess capacity at the 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 operations

& maintenance related expenses, as well as a 2.5 cents per every gallon of LNG sold for future capital projects that may be impacted by non-utility sales. 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 $571,108[2] for their share of the revenues from the non-utility sale of LNG. Staff reviewed the Company's non-utility sales of LNG, and verified that the credit to ratepayers has been calculated correctly.

Staff reviewed the capital project deferral as well as the process for vetting projects to be funded by that deferral and agrees that the deferral is being recorded properly and that the vetting process is effective in ensuring that the capital projects funded by the deferral balance are for repairs and maintenance likely impacted by the additional use of the LNG facility for non-utility sales. In 2017 there was only one project partially funded from the deferral: a paving project for a new asphalt road. Most of the additional traffic on the road is due to non-utility sales. Staff agrees that this project was a proper use of the capital project deferral.

Lost and Unaccounted for Gas and Line Break Rate

Lost and Unaccounted for Gas (LAUF) is the difference between the volumes of natural gas delivered to the distribution system at the city gate and volume of gas billed to customers at the meter. During the period from the Company's 1985 General Rate Case until conclusion of the 2016 General Rate Case, the Company recovered a portion of LAUF Gas amounts through a $0.00182 per therm charge, embedded in base rates. Any additional cost or credit was administered annually in the PGA. In the 2016 General Rate Case, the embedded rate of $0.00182 was removed from base rates, resulting in recovery of the LAUF solely in the PGA.

This year, the Company's estimated LAUF Gas rate of 0.0677% is below the maximum allowable level of 0.85% specified in Commission Order No. 30649. The Company allocates LAUF Gas 75% to core customers (Residential and General Service) and 25% to industrial customers (Large Volume and Transportation) on a per therm basis.

The Company charges a Line Break Rate to contractors or other parties who are responsible for damage to the distribution system that causes a gas leak. The current (2017

[2] The total LNG benefit consists of $571,108 from sales, plus $122 in interest, minus $41,785 from the previous case's deferral for the net benefit of $529,445 as shown on Table 2.

PGA) Line Break Rate is $0.45984 per therm. The Company proposes to decrease the Line Break Rate from $0.45984 per therm to $0.41625 per therm. The proposed Line Break Rate includes a $0.18901 Fixed-Cost Component (Transportation Cost) per therm and a $0.22724 Variable-Cost Component (WACOG) per therm for a total of $0.41625. Both components of the Line Break Rate are determined annually with the PGA filing. Staff verified that the Company calculated the proposed Line Break Rate consistent with Order No. 33139.

Tax Changes

Staff audited and confirmed that the remaining amounts to be returned to Customers due to the benefits from the Tax Cuts and Jobs Act of 2017 (TCJA) were properly accrued and reported in this filing. In Case No. GNR-U-18-01 the Commission ordered an investigation of the effects of the TCJA. In Order No. 34073, the Commission approved a multi-party settlement in which the Company would include in the PGA the benefits of the TCJA that were accrued during 2018 before the Company reduced rates on June 1, 2018. In this filing, customers will receive the deferred amount of benefits of the TCJA from January 1, 2018, to May 31, 2018, totaling $2,731,841.

Rate Case Expenses

Previously, the Commission found that the Company demonstrated the prudency of $378,614 in external rate case expenses, and an annual PGA recovery over five years ($75,723 per year) is just and reasonable. Staff confirmed that the annual recovery of the rate case expenses authorized in the previous PGA were properly amortized and that this year's recovery amount was properly calculated and recorded in this filing.

Intervenor Funding

The Commission also authorized the Company to recover intervenor funding costs from the last rate case. Staff confirmed that those costs are no longer a part of the PGA filing.

Quarterly Reporting

In the 2017 PGA, the Commission ordered the Company to resume filing quarterly Summary of Deferred Gas Cost Balances reports after they were discontinued in 2015.

Order No. 33887 at 6. Staff believes the Quarterly reports are useful, and therefore recommends the Commission order the Company continue filing the quarterly reports.

Application, Workpaper, Exhibit Content and Structure

Over the past year, the Company and Staff worked together to create a format for PGA filings, LAUF reporting, and work papers that is more comprehensive, well referenced, aligns with the Company's accounting, satisfies Commission requirements, and easier to follow and understand. Staff appreciates the Company's effort and cooperation in this endeavor.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application on August 10, 2018. Staff reviewed the documents and determined both meet the requirements of Rule 125 of the Commission's Rules of Procedure (IDAPA 31.01.01). The notice was included with bills mailed to customers beginning August 14, 2018, and ending September 11, 2018, providing most customers with a reasonable opportunity to file timely comments with the Commission by the September 18, 2018, deadline. As of September 17, 2018, no comments had been filed.

STAFF RECOMMENDATIONS

Staff recommends the Commission approve a decrease in revenues of $24.5 million as calculated in Table 2 and direct the Company to file tariffs representing the Commission's order in this case. Staff also recommends the Commission approve the Company's proposed WACOG of $0.22724 per therm. Staff encourages the Company to return to the Commission if gas prices deviate from projections significantly. Additionally, Staff recommends the Commission order the Company to continue filing quarterly updates reflecting the deferred gas costs and WACOG projections.

Respectfully submitted this 18th day of September 2018.

Brandon Karpen
Deputy Attorney General

Technical Staff: Joseph Terry
Johan Kalala-Kasanda
Kevin Keyt
Johnathan Farley

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18th DAY OF SEPTEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-18-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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