MEMORANDUM

TO:TERRI CARLOCK

STEPHANIE MILLER

SCOTT WOODBURY

WORKING FILE

FROM:MADONNA FAUNCE

DATE:MAY

SUBJECT:INT-G-95-2

NWP EXPANSION II - DEFERRAL OF TERMINATION COSTS

AND DEMAND CHARGE CREDITS

I have reviewed the Intermountain Gas Co. (IGC) application and exhibits in this case and performed a limited audit of the Company’s records, contracts and letters of intent.  I have also reviewed Northwest Pipeline’s (NWP) Order 636 restructuring filing with the Federal Energy Regulatory Commission (FERC).  I found the Company’s representation to be accurate.  Staff also noted IGC’s lead role in negotiating a reduction in the termination costs.  Staff believes the replacement contracts will reduce costs to the ratepayers over the long run and recommends approval.

Subscribers to NWP firm transportation capacity on the second expansion were required to execute a 15 year service agreement by the close of business December 7, 1992.  While NWP said it planned to pursue rolled-in rate treatment for the expansion facilities the execution of the service agreement obligated a shipper to pay whatever rate is ultimately set

by FERC.  NWP did give shippers a one-time opportunity to terminate the service

agreement.  While FERC has not made a determination of rolled-in rates or incremental rates it appears there is a good chance the rates could be incremental.  Because IGC has negotiated incremental firm capacity under the lower cost, rolled-in basis with some discounts there will be a savings for IGC’s ratepayers.

NWP submitted its Restructuring Compliance Filing to FERC October 30,

1992.  The filing was in response to FERC Order 636 and 636-A, requiring all interstate gas pipelines to take the next steps in unbundling their services and providing open access transportation and storage services.  Among other items this filing addressed capacity release after restructuring.  April 1993 FERC approved some elements of the pipeline’s initial Order 636 compliance filing and required modifications to others.  In an October 1, 1993 order FERC approved most elements of that revised filing, again ordering some modifications.  The pipeline filed another compliance filing in mid-October 1993, and its restructuring tariffs went into effect November 1, 1993.  Several parties filed requests for rehearing, comments and requests for clarification, or protests.  FERC considered these filings, the requests for

rehearing, comments and protests in an order issued December 16, 1993.  In that Order FERC clarified that a releasing shipper has the ability to release capacity outside its primary path,

and to release a segment of capacity within its primary path without suffering a diminution of its capacity as to the remaining segment.  While parts of the restructuring compliance filing are still being determined, the December 16, 1993 order allowed IGC to set-up alternative sources of firm transportation.

Staff has determined that the incremental firm capacity contracted for by IGC

is supplied by reliable companies for periods equal to or longer than the 15 years contracted for in NWP’s expansion II.  The audit verified volumes, prices and discounts are accurately presented in IGC’s Exhibit 3.

Given the facts in this case Staff believes Intermountain Gas Co. has acted prudently and in the interest of the ratepayer.  Therefore, Staff recommends approval.