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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)

INTERMOUNTAIN GAS COMPANY FOR)CASE NO. INT-G-95-3

AUTHORITY TO CHANGE ITS PRICES)

ON JULY 1, 1995 AND CANCEL ITS LV-1A)

TARIFF SCHEDULE.)COMMENTS OF THE

)COMMISSION STAFF

                                                                  )

COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Application filed by Intermountain Gas Company (IGC; Company) on May 26, 1995, submits the following comments.

Intermountain Gas Company has applied for authority to implement new rates for the Company's gas cost adjustment.  The Commission Staff has reviewed the Company's filing in Case No. INT-G-95-3 and performed an audit.  Staff found the Company has done the following:

●Changed some gas suppliers;

●Begun using swaps (hedging) to fix gas supply costs;

●Actively pursued capacity release and segmentation (the capacity release of a segment of IGC's transportation rights);

●Terminated firm transportation on Northwest Pipeline's Expansion II;

●Added firm capacity contracts on NWP as authorized in Order No. 26022, Case No. INT-G-95-2, dated May 24, 1995, and

●Changed the PGA to use normalized volumes for fixed demand costs as authorized in Order 26019, Case No INT-G-95-1, dated May 24, 1995.

Staff's audit of gas supply, swaps, capacity release, segmentation, added firm capacity and PGA changes revealed no irregularities.

In examining the Company's proposed rates, Staff analyzed the method used to account for the changes approved in Order No. 26019, Case No. INT-G-95-1.  Staff agrees with the method used by the Company to account for demand charges but believes the Company's Exhibit No. 4, line 13, needs to be clarified.  Because the PGA had historically adjusted only for changes in rates paid by the Company and ignored changes in therm usage, demand charges were routinely over recovered.  Under Order No. 26019 changes in therm usage will be recognized on a going forward basis.  Therefore, to correct the current overcollection of demand charges built into current rates, IGC has developed a workpaper that shows normalized therm sales will produce $20,557,678 to cover demand costs of only $15,011,561.  This leaves a surplus of $5,546,117 which IGC has netted against the demand charges on transportation contracts that have been negotiated since the last general rate case.  Historically these new transportation contracts have been ignored in this tracker process so they are not shown directly on the Company’s Exhibit No. 4.  The demand charge for these new contracts is $6,505,814 and the difference between the new contract demand charges and the surplus is the $959,697 on Exhibit No. 4, line 13.  These new transportation contracts include the contracts put in place to cover the withdrawal from NWP Expansion II.  Staff has examined the transportation contracts and demand charges and agrees with the Company's therms and dollar amounts.

IGI Resources, Inc. as agent for Intermountain Gas Company has been entering into swap transactions (hedging) for gas supply.  This means IGC is paying a fixed price for gas supply and the trading corporation or bank pays the floating price usually pegged to 'Inside F.E.R.C's Gas Market Report' under 'prices of Spot Gas Delivered to Pipelines', for Northwest Pipeline Corp.  Each swap notes the commodity, quantity, pricing term and fixed price.  This means that IGC is betting the price will go up and the trading corporation or bank is betting the price will go down.  This is brought about by the changes in long-term gas supply contracts.  Many producers will no longer give a fixed price for a year or more but are pegging their price to a spot market.  Therefore, by using a swap IGC has fixed the contract price by using a third party.

Because the swaps are for a fixed amount at a rate considerably lower than last years weighted average cost of gas, Staff has no reason at this time to believe hedging will place unreasonable additional risk on ratepayers or shareholders.  Even though the limited number of swaps show a significant savings, Staff believes future hedging activity should be monitored closely.  Staff therefore recommends that IGC keep records that will allow Staff to audit what would have happened absent the swap and what has happened with the swap.

TRACKER IMPACT

The overall impact of the proposed changes will be to decrease Idaho revenues by $4,340,194.  This decrease is made up of:

|  |  |
| --- | --- |
| Permanent Adjustments: |  |
| 7/1/95-6/30/96 transportation/storage fixed charges | $ 2,724,072  |
| 7/1/95-6/30/96 commodity costs |  (5,338,294) |
|  |  |
| Temporary Surcharges or Credits: |  |
| Deferred Account 186 Misc. |    268,781 |
| Temporary Fixed Demand/Storage |    659,086 |
| Special contract shared revenue |    (678,469) |
| Thermal Exploration |     ( 64,000) |
| Segmentation/Capacity |    611,022 |
| SSP/Order 500 Refund |    (584,193) |
| Deferred Gas Cost |    461,745 |
| Deferred Storage Gas Cost |  (1,189,596) |
| Transportation Segmentation |  (2,455,128) |
| Prior Year temporary charge |  1,244,780 |

Any over/under collections will be trued up in the next tracker.

The Staff computes the annualized decrease by class of service per therm in the following manner:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| GAS SALES | AVG INCREVENUE | AVG INC¢/THERM | PROPOSED% CHANGE | AVG PRICE$/THERM |
| RS-1 Residential | (442,174) | (1.401) | (2.203%) | $0.62198 |
| RS-2 Residential | (3,035,561) | (4.346) | (8.179%) |  0.48792 |
| GS-1 General Service | (1,293,457) | (1.856) | ( 3.868%) |  0.46124 |
| T-1 Transportation | 430,998 |   .232 |  3.188% |  0.07510 |

With the exception of the industrial class, IGC proposes to allocate the increase (decrease) to each of its customer classes in accordance with its Purchase Gas Cost Adjustment tariff and approved cost-of-service methodology (Ref. Case No. INT-G-88-2, Order No. 22058 as modified in Case No INT-G-95-1, Order No. 26019).  A straight cents-per-therm increase is not utilized for the T-1 tariff.  This occurs because there are no fixed costs currently recovered in the tailblock of IGC's T-1 tariff and the proposed T-1 increase is related to fixed costs.  A cents-per-therm increase is made only to the first two blocks of the T-1 tariff.

PERMANENT ADJUSTMENT

The permanent adjustment reflects increases in the demand charge by NWP as well as the addition of new transportation contracts discussed earlier and decreases in the cost of gas.  While storage demand, reservation, liquefaction and vaporization costs all increased the largest dollar increase was for NWP's 8.6% demand cost increase.  This $1,504,967 increase coupled with the $959,697 adjustment for fixed cost collection makes up 90% of the fixed demand cost increase.  Gas supply costs decreased 14% due to falling prices being locked by swap contracts.

TEMPORARY SURCHARGES OR CREDITS

The temporary surcharges/credits reflect the true-up of prior period costs deferred in IGC's 186 accounts.  The surcharges/credits are split into fixed gas and transportation costs, variable gas and transportation costs, shared revenue and interest, Northwest Exploration Joint Venture refund, SSP refund, Reformation Settlement refund, the removal of the prior year temporary charge and the sale of segmented space under IGC's transportation agreement with NWP.

The largest contributing factors to the decrease are the deferred storage gas supplies being lower then the gas commodity cost and the selling of segmented space.  These two items make up 123% of the decrease in temporary surcharges or credits.

SUSPENSION LV-1A

IGC has asked to suspend tariff LV-1A.  Staff has examined this tariff and agrees it no longer serves a useful purpose because of the open gas markets under FERC Order 636 which has changed the gas supply.

DATED  at Boise, Idaho, this                    day of June, 1995.

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Scott Woodbury

Deputy Attorney General

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Madonna Faunce

SW:MF:umisc/comments/intg953