DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:JUNE 23, 1995

RE:CASE NO. INT-G-95-3

On May 26, 1995, Intermountain Gas Company (IGC; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to place into effect new rate schedules that would result in a decrease of $4,340,194 in its annualized revenues.  The decrease reflects a change in the Company’s cost of gas and the elimination and/or imposition of a number of temporary gas and transportation cost adjustments, surcharges and credits.  The Company also proposes to balance out its Purchased Gas Cost Adjustment (PGA), Account No. 186.  The PGA account is a deferral mechanism for over- and under-collections and for realized savings on spot market gas purchases.

The proposed adjustments reflected in the Application include changes in costs billed IGC by Northwest Pipeline Corporation (NWP), the elimination of temporary surcharges and credits (INT-G-94-3), a decrease in the Company’s weighted average cost of gas (WACOG), the benefits generated from the Company’s segmentation of its firm capacity rights on NWP’s system, and the inclusion of temporary surcharges and credits related to gas and transportation costs from the Company’s deferred gas cost account (PGA Account No. 186).

The Application proposes implementation of the following permanent and temporary changes, adjustments, surcharges and credits to IGC’s tariff rate for natural gas service, sales and transportation.

Permanent Adjustments

●INT-G-94-3 Elimination of temporary surcharges/credits$1,244,781

●Change in transportation, storage and commodity rates/charges($2,614,222)

Temporary Surcharges or Credits

Deferred gas costs (IGC PGA Account No. 186)

●Deferred Account No. 186 Miscellaneous (fixed)$767,071

●Deferred Account No. 186 (variable) ($518,882)

●Deferred Account No. 186 – interest($21,345)

●Special Contract Shared Margin ($678,469)

●Northwest Exploration Joint Venture($64,000)

Refund Amount for IGC Past Participation

●Capacity Segmentation Credits($2,455,128)

As computed by the Company, the total requested decrease in revenue on an annual basis is ($4,340,194) or -4.2%.  The decrease in sales gas revenues is ($4,771,192) or -5.3%.  The increase in transportation service revenues is $430,998 or 3.2%.  The annualized change by class of service per Company calculation is as follows:

Gas Sales

RS-1 Residential

RS-2 Residential

GS-1 Gen. Svc.

Revenue

($442,174)

($3,035,561)

($1,293,457)

Average

Decrease

¢/Therm

(1.401¢)

(4.346¢)

(1.856¢)

Average

Decrease

% Change

(2.2%)

(8.2%)

(3.9%)

Proposed

Average Price

$/Therm

$0.62198

$0.48792

$0.46124LV-1 Lg. Volume\*

\*T-1 Tariff Price plus the Weighted Average Cost of Gas (WACOG), $0.18891.

(Compare WACOG INT-G-94-3: $0.22011)

WACOG = total commodity cost of gas ÷ total purchase therms

Transportation

T-1 Transportation

Revenue

$430,998

Average

Increase

¢/Therm

0.232¢

Average

Increase

% Change

3.2%

Proposed

Average Price

$/Therm

$0.07510

With the exception of the industrial class, IGC proposes to allocate the decrease to each of its customer classes in accordance with its Purchase Gas Cost Adjustment tariff and approved cost of service methodology.  (Reference Case Nos. INT-G-95-1, INT-G-88-2, U-1034-137).  Because there are no fixed costs currently recovered in the tail block of IGC’s T-1 tariff and because the proposed increase in the T-1 tariff is related to fixed costs, a ¢/therm increase is made only to the first two blocks of the T-1 tariff.

IGC contends that the overall price decrease requested will not affect its earnings and is fair, just and equitable.  Additionally, the Company requests cancellation of its LV-1A tariff.  The purpose of the tariff was “to pass through adjustments in purchased gas costs [to large volume firm service sales customers] resulting from adjustments in the rates of [NWP], pursuant to a tariff approved by the Federal Energy Regulatory Commission authorizing pipeline commodity rate changes on one day’s notice.”  The Company contends that the tariff is obsolete and serves no functional purpose in today’s “open access” environment.  IGC contends that the public interest does not require suspension of the Application or further investigation into its reasonableness by hearing.  The Company requests that the matter be processed under Modified Procedure, i.e., by written submission rather than by hearing.  The Company requests an effective implementation date of July 1, 1995.

Commission Notices of Application and Modified Procedure in Case No. INT-G-95-3 were issued on June 2, 1995.  The deadline for filing written comments or protests was June 22, 1995.  Commission Staff (Staff) was the only party to file comments (attached).

Staff recommends that the Company’s Application in Case No. INT-G-95-3 be approved.  Staff reviewed the Company’s filing and performed an audit.  Staff notes that 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 states that its audit of gas supply, swaps, capacity release, segmentation, added firm capacity and PGA changes revealed no irregularities.

Staff believes the Company’s hedging activities should be monitored closely and 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.

Staff states that it agrees with the Company that its LV-1A tariff no longer serves a useful purpose and can be eliminated.

COMMISSION DECISION

●Does the Commission find the proposed changes to the Company’s tariffs as set out in the Company’s PGA Application to be reasonable?

●Should the Company’s Application be approved?

Should the proposed rate schedule be approved?

Should the Company be authorized to make the change to its rates effective July 1, 1995?

Is it reasonable to cancel the Company’s LV-1A tariff?

Should the Company be required to keep detailed records re:  hedging activities?

                                               Scott D. Woodbury

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