BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO PLACE INTO EFFECT AN INDUSTRIAL TRANSPORTATION TARIFF UNDER A PILOT PROGRAM AND TO MOD­IFY ITS EXISTING T-1 TRANSPORTA­TION SERVICE TARIFF. | )  )  )  )  )  )  )  )  ) | CASE NO. INT-G-95-4  ORDER NO.  26203 |

On September 8, 1995, Intermountain Gas Company (IGC; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to implement a new industrial transportation tariff (“T-2 tariff”) and to modify its existing T-1 transportation service tariff (“T-1 tariff”).  By its filing IGC seeks to effect changes in its tariffs so as to enable the Company to better manage firm capacity rights on the Northwest Pipeline Corporation (NWP) system and provide industrial customers with an economic incentive to manage the growth in their peak day usage   As represented, the proposed tariffs will serve to minimize the need to purchase incremental capacity on NWP’s system while at the same time helping to increase IGC’s load factor, thereby helping to keep costs down for all IGC’s customers.  The Company has requested an effective date of November 1, 1995.

T-1 Tariff

As presently structured, the T-1 tariff recovers the industrial class’s allocated share of NWP-related demand charges in the first two blocks of the tariff.  There are no fixed costs recovered in the “tail block” or third block of the tariff.  The tail block price is currently $0.00661/therm and applies to any natural gas transported to an industrial customer in excess of 750,000 therms.

The Company contends that a change in the T-1 tariff is needed because incremental demand-related charges incurred by the Company on behalf of tail block customers to serve the incremental peak day growth of such customers, is not being recovered from said customers.  This under-collection of demand charges from the responsible party, the Company contends, results in a need for cross-subsidization by the Company’s other customers, both core market as well as industrial.  It is to be noted that any under-collection of demand charges is recovered by the Company in its purchased gas cost adjustment tariff (PGA tariff).

To resolve this inequity, IGC proposes to limit any T-1 tail block usage at the tail block therm price (currently $0.00661/therm) to a customer’s three-year historic high usage within this block (i.e., that transportation usage that exceeds 750,000 therms within any given month).  The Company further proposes that any growth in an existing industrial customer’s tail block usage above this historical level, be billed at the block 2 price (currently $0.05351/therm), thus recovering any incremental demand-related costs incurred by the Company to serve that customer’s incremental peak day usage.

T-2 Tariff

The Company states that by this Application it is seeking to broaden the menu of services offered to industrial transportation customers.  IGC reports that several of its large industrial customers are anticipating growth in their daily natural gas needs, which in turn, may require the Company to procure additional peak day capacity from NWP.  The same industrial customers, if given the proper economic incentive, the Company contends, have the ability to limit their peak day usage either by using their existing alternative fuel capability or, by managing their production schedules and moving production away from IGC’s system peak day.  Minimizing the purchase of expensive peak day capability from NWP is certainly, the Company contends, the least cost alternative for all of IGC’s customers.

The T-2 transportation tariff proposed by the Company introduces an interruptible service option for industrial customers.  The T-2 tariff provides firm transportation service and requires customers to nominate a maximum daily firm quantity (MDFQ).  Customers may take gas in excess of their MDFQ, except during periods of curtailment when the customer’s volumes would be limited to the MDFQ plus a specified tolerance level.  The tariff includes a demand charge whereby each industrial customer would pay an amount necessary to purchase incremental firm capacity incurred by the Company on the industrial customers’ behalf, a commodity charge for firm usage, and a commodity charge for any usage above the contracted peak day.

The Company proposes to “test market” the proposed T-2 tariff under a two-year pilot program and to reevaluate the tariff at the conclusion of the test period.  All of IGC’s industrial customers are eligible to elect service under the proposed T-2 tariff.

The Company contends that the public interest in this case does not require a hearing.  The Company has requested that the matter be processed pursuant to Modified Procedure, i.e, by written submission rather than by hearing.  Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

On September 22, 1995, the Commission issued Notices of Application and Modified Procedure in Case No. INT-G-95-4 and established an October 11, 1995 deadline for filing written comments.  Timely comments were filed by the Northwest Industrial Gas Users (NWIGU) and Commission Staff.

The comments filed in Case No. INT-G-95-4 can be summarized as follows:

NWIGU

NWIGU submits comments on behalf of the following industrial customers of IGC:  JR Simplot Co., Basic American Foods, Lamb-Weston, Inc. and Ore-Ida Foods, Inc.

Regarding the T-1 tariff, NWIGU states that it does not object to the Company’s proposed modifications.  NWIGU requests, however, that IGC designate the T-1 tariff as “Firm Transportation Service” to more clearly state the nature of the service being provided.

Regarding the T-2 tariff, NWIGU contends that the curtailment provisions need greater specificity and proposes substitute revised language for T-2 ¶ 5 on the issues of entitlement and curtailment. The proposed revision reflects different degrees of entitlement to respond to a wider range of possible conditions on the pipeline system, and sets out basic notification requirements for affected customers.

Staff

Regarding the T-1 tariff, in auditing the Company’s existing transportation contracts and peak day consumption, Staff concurs that the peak day transportation capability of IGC is reaching its current maximum contracted daily allowances.  In examining the Company’s T-1 Transportation Service tariff rate design, Staff agrees that with a constraint on peak day transportation the Company would have to add capacity to accommodate new growth in the “tailblock.”  Acknowledging that the existing T-1 tariff is a cost-based tariff which collects fixed demand costs in only the first two blocks and recovers only variable costs in the tailblock, Staff recommends acceptance of the Company’s proposal to grandfather existing “tailblock” customers at their three-year historical high usage within the tailblock and move all new growth above the T-1 block 1 level to the block 2 rate.

Regarding the T-2 tariff, Staff states that it has audited the numbers used to prepare the T-2 rate schedule and determined that the numbers used are from the Company’s most current cost-of-service study and that the T-2 block 2 rates are based on Northwest Pipeline’s demand charges.  Therefore, Staff concludes the schedule is cost-based.  Based on information provided by IGC, Staff believes that only an industrial customer with at least a 70% load factor will benefit in switching from T-1 to T-2.  It further appears to Staff that a high load factor customer who is grandfathered in the T-1 “tailblock” as a heavy “tailblock user” would find no benefit in switching.  Each customer, Staff contends, will have to assess its own requirements and usage pattern to determine if it will benefit from switching.  Because it is difficult to estimate how many customers will switch, Staff contends that it is also difficult to assess the impact of the T-2 schedule on the Company’s earnings.  Staff recommends approval of the Company’s rate schedule T-2 transportation service tariff on a two-year trial basis.

Staff also recommends that both the T-1 and T-2 rate schedules include specific language to notify customers that the rate schedules are subject to all provisions of the Purchased Gas Cost Adjustment (PGA) tariff.  Toward such end, Staff believes that language in the T-1 tariff should be changed to expressly recognize the fact that it is subject to the PGA tariff, which covers both fixed and variable true-ups, not just purchased gas.  The same language, Staff contends, should be added to the T-2 tariff, which, as proposed, does not include any provisions that recognize the PGA tariff.

On October 12, 1995, Intermountain Gas made a letter filing with the Commission agreeing to both the comments and suggested tariff language changes made by both Northwest Industrial Gas Users and the Commission Staff.

COMMISSION FINDINGS

The Commission has reviewed and considered the Application and filings of record in Case No. INT-G-95-4.  The Commission has also reviewed and considered the comments and recommendations of Staff and the Northwest Industrial Gas Users (NWIGU).  We find that the public interest regarding the requested change in transportation tariffs and rates does not require a public hearing to consider the issues presented and that it is reasonable to process the Application and issue an Order without further notice or public comment.  Reference IDAPA 31.01.01.204.

The Company in this case has acquiesced to the proposed changes of NWIGU and Staff and submitted amended tariffs incorporating said changes (attached).  We find the changes proposed by NWIGU and Staff to be reasonable.  Based on our review and analysis, we find it appropriate, just and reasonable to approve the modifications to the Company’s existing T-1 transportation service tariff and resultant rates.  Based on our review and analysis, we further find it appropriate, just and reasonable to approve implementation of the proposed T-2 industrial transportation tariff and identified rates for a two-year test period.  The T-1 tariff modification and T-2 transportation tariff that we approve incorporate the changes of NWIGU and Staff as reflected in the attached tariffs.

CONCLUSION OF LAW

The Idaho Public Utilities Commission has jurisdiction over this matter and Intermountain Gas Company, a gas utility pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED that the Intermountain Gas Company be authorized to modify its T-1 Transportation Service tariff in the manner reflected in the Company’s amended tariff sheets attached hereto for an effective date of implementation of November 1, 1995.

IT IS FURTHER ORDERED that Intermountain Gas Company be authorized to implement a new T-2 Firm Transportation Service tariff as reflected in the Company’s amended tariff sheets attached hereto for a two-year test period with an effective date of implementation of November 1, 1995.

THIS IS A FINAL ORDER.  Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order.  Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration.  See Idaho Code § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of  October 1995.

RALPH NELSON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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