DECISION MEMORANDUM

TO:COMMISSIONER NELSON\

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

MADONNA FAUNCE

KEITH HESSING

GARY RICHARDSON

WORKING FILE

FROM:SCOTT WOODBURY

DATE:OCTOBER 13, 1995

RE:CASE NO. INT-G-95-4

INDUSTRIAL TRANSPORTATION TARIFFS

T-1 TARIFF CHANGE; T-2 NEW TARIFF

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 tariff 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 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.  (Proposed T-1 tariff attached)

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 (attached) proposed by the Company 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.  (Attached).  NWIGU also petitions for leave to intervene in order to preserve its procedural and substantive rights associated with party status and to reserve the right to file cross-comments in this proceeding.

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 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.  (See attached Exhibit A)  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 found 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 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 T-1 tariff change that will grandfather existing “tailblock” customers in 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 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 that customers with a high load factor who are also 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 language to notify customers that the rate schedules are subject to all provisions of the Purchased Gas Cost Adjustment (PGA) tariff.  Staff believes that language in the T-1 tariff should be changed to 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 have 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 Decision

●  Does the Commission continue to find Modified Procedure to be appropriate?

●  Should the Company’s Application with the proposed changes of NWIGU and Staff be approved?

●  The Company has requested an effective date of November 1, 1995.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Scott Woodbury

vld/M-INT-G-95-4.SW2