DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:JUNE 24, 1996

RE:CASE NO. INT-G-96-3

ANNUAL PGA TRACKER — -0.635% DECREASE

On May 30, 1996, 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 $684,324 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 in its filing also proposes to balance out its Purchased Gas Cost Adjustment (PGA), Account 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-95-3), 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 relating to gas and transportation related costs from the Company’s deferred gas cost account (PGA Account 186).

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

Permanent Adjustments:

●INT-G-95-3 Elimination of Temporary Surcharges/Credits$3,109,388

●Change in NWP rates/charges $3,825,264

●Commodity charges($2,499,197)

Temporary Surcharges or Credits

Deferred Gas Costs (IGC PGA Acct 186)

●Special Contract Shared Margin($ 753,351)

●Thermal Exploration Inc.

Refund Amt for IGC past participation($ 361,491)

●Uncollected Gas Costs $3,168,052

●NWP Fixed SSP Refund($2,699,580)

●NWP Refunds($1,857,500)

●Transportation Segmentation($2,615,909)

As computed by the Company, the total requested decrease in revenue on an annual basis is ($684,324) or -0.635%.  The decrease in sales gas revenues is ($743,264) or -0.798%.  The net decrease in T-1 and T-2 transportation service revenues is ($21,324) or -0.15%.  The increase in ammonia transportation service revenues is $80,264 or 10.875%.  The annualized decrease by class of service per Company calculation is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Gas Sales | Revenue | Avg Decrease     ¢/Therm | Avg Decrease    % Change | Proposed Avg Price  $/Therm |
| RS-1 Residential | ($4,928) | (0.015¢) | (0.024%) | $0.62183 |
| RS-2 Residential | ($ 620,292) | (0.788¢) | (1.615%) | $0.48004 |
| GS-1 Genl Svc | ($118,044) | (0.159¢) | (0.345%) | $0.45965 |

|  |
| --- |
| LV-1 Large Vol. \* |
| \* T-1 tariff price plus the Weighted Average Cost of Gas (WACOG), $0.17546                      (Compare WACOG INT-G-95-3:  $0.18891) |
| WACOG = total commodity cost of gas ÷ total purchase therms |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Transportation | Revenue | Avg Decrease  ¢/Therm | Avg Decrease  % Change | Proposed Avg Price  $/Therm |
| T-1 Transp. | ($ 7,233) | (0.004¢) | (0.053%) | $0.07506 |
| T-2 Transp. | ($14,091) | (0.125¢) | (2.428%) | $0.05024 |

The annualized increase for ammonia transportation per Company calculation is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Transportation | Revenue | Avg Increase  ¢/Therm | Avg Increase  % Change | Proposed Avg Price  $/Therm |
| Ammonia Transp. | $80,264 | 0.230¢ | 10.875% | $0.02345 |

Intermountain Gas proposes with this Application to include in its T-1 and T-2 transportation tariffs the collection of Northwest Pipeline’s TF-1 commodity firm transportation charge, $0.00230 per therm.  Currently, the TF-1 commodity charge is billed to industrial customers by IGC’s affiliate, IGI Resources.  This change, the Company states, will minimize the potential for uncollected amounts.

With the exception of the Industrial Class, IGC proposes to allocate the decrease to each of its customer classes in accordance with its Purchased Gas Cost Adjustment tariff and approved cost-of-service methodology.  (Ref. Case Nos. INT-G-95-1, INT-G-88-2, U-1034-137).  Because there are no fixed costs currently recovered in the tailblock of IGC’s T-1 tariff  and because the proposed decrease in the T-1 tariff is related to fixed costs (except for TF-1 commodity charge), a cents-per-therm decrease is made only to the first two blocks of the T-1 tariff.  All three blocks of IGC’s proposed T-1 tariff have been adjusted to include NWP’s firm transportation TF-1 commodity charge.  The proposed decrease in the T-2 tariff (except for TF-1 commodity charge) is fixed cost related and, therefore, a cents per therm decrease was made only to the T-2 demand charge.  The commodity charge component of the T-2 tariff was adjusted to include NWP’s firm transportation TF-1 commodity charge.

IGC contends that the overall price decrease requested will not affect its earnings and is fair, just and equitable.  IGC further 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, 1996.

Commission Notices of Application and Modified Procedure in Case No. INT-G-96-3 were issued on June 3, 1996.  The deadline for filing written comments or protests was June 21, 1996.  Commission Staff (Staff) was the only party to file comments (attached).

Staff recommends that the Company’s Application in Case No. INT-G-96-3 be approved.    Staff reviewed the Company’s filing and performed an audit.  Staff’s audit of gas supply, swaps, capacity release, segmentation, added firm transportation capacity, tariff allocations and PGA changes revealed no irregularities.

Staff notes that the Company’s increased use of swaps (hedging) to fix a greater percent of a gas supply costs merits continued watching.  Intermountain Gas Company, Staff states, utilized swaps for approximately 50% of its projected gas supply needs in 1995/1996.  Staff believes that this percentage is increasing and finds that the Company is also using swaps to cover summer spot market purchases.  Intermountain Gas Company, Staff states, has in place swaps that run until June 1999.  By entering into swaps the Company is able to fix the price of gas over a period of time.  Staff notes that spot markets were low in the northwest this past winter, much lower than the swaps price.  The resultant cost from swaps to the core customers above the actual commodity cost was approximately $2,387,000 or .01285 cents per therm.  Staff notes however, that if the winter had been colder than normal it is possible there could have been a savings of the same magnitude for core customers.  Staff believes that the Company should present the Commission with ideas on the best way to insure that the cost of swaps is not greater than any benefits received.  Staff intends to schedule meetings with the Company to discuss gas swaps and related issues including the attendant risk/benefit of swaps to the Company and core customers.

Commission Decision

Does the Commission continue to find that the public interest regarding the requested change in 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 hearing?

●  The Company in this case has requested a decrease of $684,324 in its annualized revenues.   Does the Commission find it reasonable to approve the Company’s Application?

● Does the Commission find it reasonable to that the change in rates and charges be implemented as reflected in the Company’s proposed amended tariff sheets for an effective date of July 1, 1996?  Does the Commission agree that the changes should be tracked through to the customers as proposed in the Company’s Application?

●  Does the Commission wish to encourage Staff to initiate further dialogue with Intermountain Gas Company to address the Company’s increased use of swaps?

Scott D. Woodbury

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