SCOTT WOODBURY

DEPUTY ATTORNEY GENERAL

IDAHO PUBLIC UTILITIES COMMISSION

PO BOX 83720

BOISE,  IDAHO  83720-0074

(208) 334-0320

Street Address for Express Mail:

472 W. WASHINGTON

BOISE, IDAHO  83702-5983

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-96-3

AUTHORITY TO DECREASE ITS PRICES ON)

JULY 1, 1996.)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 June 21, 1996, 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-96-3 and performed an audit.  Staff found the Company did the following:

•Increased the use of swaps (hedging) to fix a greater percent of the gas supply costs.

•Actively pursued capacity release and segmentation (the capacity release of a segment of Intermountain Gas Company’s transportation rights).

•Tracked the termination cost of firm transportation on Northwest Pipeline’s Expansion II along with the savings from firm transportation contracts purchased to cover additional needs for transportation (Order No. 26022, Case No. INT-G-95-2, dated May 24, 1995).

•Utilized normalized volumes for fixed demand costs per Order No. 26019, Case No. INT-G-95-1, dated May 24, 1995.

•Properly added the T-2 tariff changes.  Staff’s audit of gas supply, swaps, capacity release, segmentation, added firm transportation capacity, tariff allocations and PGA changes revealed no irregularities.

SWAPS

IGI Resources, Inc. as agent for Intermountain Gas Company has been entering into swap transactions for gas supply.  In Staff’s comments in Case No. INT-G-95-3, Staff noted that this was a new event and not enough data was available to determine the effect the swap contracts would have on ratepayers.  While Staff believes there still is not enough history to determine if the Company should continue to use swaps, Staff now has some concerns.  Intermountain Gas Company 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 has in place swaps that run until June 1999.  One reason Intermountain Gas Company entered into swaps was to fix the price of gas over a period of time.  Swaps do have an interesting feature that may defeat stabilizing gas prices.  The swap is for a specific MMBTU amount, much like the commodity demand charge.  Therefore, in a warm winter or if there is a pipeline curtailment when the specific MMBTUs in a swap contract may not be used, the payment reflects the full contracted MMBTUs even if the gas was not delivered.  This means the Company would pay for non-existing gas.  As we know from the commodity demand charge this will drive the price of gas up even if the idea was to stabilize the price.  Also, in a warm winter as in 1995/1996 when actual usage was 150,476,000 therms, compared to normalized therms of 171,099,170 in INT-G-95-3, the price of gas drops.  Spot markets were low in the Northwest this past winter, much lower than the swap’s price.  All of these factors combined in this purchased gas cost adjustment (PGA), produced a cost from swaps to the core customers above the actual commodity cost by approximately $2,387,000 or .01285 per therm.  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 the Company should present the Commission with ideas on the best way to insure that the cost of the swaps is not greater the benefits received.

TF-1 VOLUMETRIC CHARGE

Intermountain Gas Company has asked to resume the collection of NWP’s TF-1 volumetric charges instead of relying on third party marketers for collection and remittance.  Staff has analyzed Northwest Pipeline’s (NWP) TF-1 volumetric charge and finds that IGI Resources has been collecting this cost from their customers who are also Intermountain Gas Company’s T-1 and T-2 transportation customers.  Staff also believes that the gas industry is becoming more competitive and that gas marketers will be challenging Intermountain Gas Company and IGI Resources for the Idaho markets.  Staff agrees that Intermountain Gas Company is responsible for the payment to NWP.  Therefore, to protect Intermountain Gas Company from losses of the TF-1 volumetric costs, Staff agrees that Intermountain Gas Company should be collecting these charges from the T-1 and T-2 customers.  Because, Intermountain Gas Company’s T-3 customers do not use Intermountain Gas Company’s NWP transportation they would not be affected by this change.

TRACKER IMPACT

The overall effect of the proposed changes in Case No. INT-G-96-3 is to decrease Idaho revenues by $684,324.  This decrease is made up of:

Permanent Adjustments:

7/1/96-6/30/97 transportation/storage fixed charges$3,825,264

7/1/96-6/30/97 commodity costs (2,499,197)

Temporary Surcharges or Credits:

Temporary Fixed

LS Demand charge(2,621,925)

Market Segmentation Net      80,502

Supplier Settlement Refund Net     (30,880)

Capacity Release     (45,133)

Other Temporary Fixed     (82,144)

Special Contract Shared Revenue   (753,351)

Market Segmentation(2,615,909)

NWP Settlement offer Docket No. RP94-220(1,200,000)

NWP Settlement offer Docket No. RP93-5   (657,500)

Thermal Exploration   (361,491)

Deferred Storage Gas Cost(1,094,109)

Deferred Gas Cost  4,255,430

Deferred Account 186 Miscellaneous         6,731

Prior Year Temporary Charge 3,109,388

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:

 Average  AverageAverage

IncrementalIncrementalProposed  Price

Gas Sales  Revenue  ⊄/Therm% Change$/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 General Service ($118,044)(0.159⊄)(0.159%)$0.45965

T-1 Transportation($423,130)(0.234⊄)(3.116%)$0.07276

  Adj TF-1  $415,897  0.230⊄3.063%$0.00230

  Net T-1 ($    7,233) (0.004⊄)(0.053%)$0.07506

T-2 Transportation

  Demand ($ 38,452) (5.826⊄)(6.949%)$0.78011

  Commodity(TF-1)  $ 24,361   0.230⊄93.496%$0.00476

  Net T-2 ($ 14,091) (0.125⊄)\*(2.428%)\*$0.05024\*

Ammonia Transportation

  TF-1 $34,897,191 0.230⊄10.875%$0.02345

\* T-2 uses a different therm allocator for Demand and Commodity therefore the net will not equal the parts.

With the exception of the industrial class, Intermountain Gas Company 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 (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 Intermountain Gas Company’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 Intermountain Gas Company’s proposed T-1 tariff have been adjusted to include NWP’s firm transportation TF-1 volumetric charge.  The proposed decrease in the T-2 tariff demand is related to fixed cost and the increase in the T-2 tariff commodity reflects NWP’s TF-1 volumetric charge.

PERMANENT ADJUSTMENT

The permanent adjustment in the tracker for transportation/storage fixed charges reflects increases in the demand charge by NWP as well as contracted transportation pegged to NWP’s tariffs (Case No. INT-G-95-1).  While there were increases and decreases in storage demand, reservation, liquefaction and vaporization costs, the largest dollar changes were for NWP’s 6.1% demand charge increase which resulted in a $1,157,451 charge on existing therms and a 2,561,280 therm increase which resulted in a $2,389,444 additional charge for transportation.  In addition, NWP’s TF-1 volumetric charge of .00230 per therm or $520,522 is included in the permanent adjustment to transportation costs.  Gas supply costs decreased 7% or $2,499,197 due to falling prices and the continued outlook of gas supply in the Northwest.

TEMPORARY SURCHARGES OR CREDITS

The temporary surcharges/credits reflect the true-up of prior period costs deferred in Intermountain Gas Company’s 186 accounts.  The surcharges/credits are broken into fixed gas and transportation costs, variable gas and transportation costs, shared revenue and interest, Northwest Exploration Joint Venture refund, NWP’s refunds, the removal of the prior year temporary charge and the sale of segmented space under Intermountain Gas Company’s transportation agreements.

The largest contributors to the decrease are the LS demand charge at $2,621,925, market segmentation at $2,615,909, deferred storage gas cost at $1,094,109 and NWP settlement offers at $1,200,000 and $657,500.  The increase in the deferred cost of gas of $4,255,430 was due to the swap issues discussed earlier and the lack of gas usage due to a warm winter in relation to gas contract demand charges.

STAFF RECOMMENDATION

Staff recommends approval of the proposed PGA rate changes.  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.

DATED  at Boise, Idaho, this            day of June 1996.

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Scott Woodbury

Deputy Attorney General

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Madonna Faunce

Senior Auditor

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