DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: LISA NORDSTROM

DATE: FEBRUARY 6, 2003

RE: IN THE MATTER OF THE INVESTIGATION INTO THE PURCHASE GAS ADJUSTMENT (PGA) MECHANISM AND THE NATURAL GAS PURCHASING POLICIES OF INTERMOUNTAIN GAS COMPANY. CASE NO. INT-G-01-1.

In the year 2000, Intermountain Gas Company filed two Purchase Gas Adjustment (PGA) increases. Intermountain customers observed their winter rates increase by 60% in one year. While a PGA increase is not uncommon, two increases in less than a year are unusual and the total increase to customers was unprecedented. On February 7, 2001, the Commission issued a Notice of Investigation in Order No. 28632 directing Staff to investigate Intermountain Gas' PGA mechanism and purchasing policies. Staff's investigation found that the PGA should be maintained – a conclusion endorsed by Intermountain in its reply comments filed June 1, 2001. At its January 21, 2003 decision meeting, the Commission requested that the Company and Staff update their comments on this investigation. These updated comments are discussed in further detail below.

UPDATED STAFF INVESTIGATION COMMENTS

Staff's Investigative Report filed May 22, 2001 included seven recommendations, with which Intermountain's reply comments generally agreed. Listed below are Staff's original recommendations (underlined) and a brief analysis of the current situation.

Recommendation #1: Maintain the existing purchase gas cost adjustment mechanism. Staff continues to recommend that the current purchase gas cost adjustment mechanism be used.

Recommendation #2: Improve documentation and increase communication between the Company, the Commission, and Staff. Intermountain Gas maintained all the items specified by Staff for review. In the past year improved communication enabled Staff and the Company to uncover "questionable capacity release activity" by the Company's current marketer, IGI Resources. Staff believes the issues are resolved on a going-forward basis but will continue to monitor the situation.

Recommendation #3: Staff will also review the initial documentation retained in the next several months to informally discuss the process and make additional recommendations for the Company to consider. Staff reviewed the documentation retained by the Company during the last two PGA periods and noted that the Company worked well with Staff to improve the Company's documentation of purchase decisions.

Recommendation #4: The Company should document and report all new contracting arrangements and initiate a bidding process for new gas contracts as existing contracts expire. Staff indicated that the Company has documented and reported all its new gas purchase agreements, which were awarded to the lowest bidder meeting certain requirements. The Company kept the documents used to select a provider.

Recommendation #5: The Company should be directed to file its required Integrated Resource Plan *immediately* and provide additional annual updates in addition to the required biannual filing. Staff indicated that the Company filed its 2002 Natural Gas Integrated Resource Plan on April 19, 2002. The Commission accepted and acknowledged the Company's 2002 IRP filing on September 9, 2002.

Recommendation #6: The Company should be directed to provide to Staff: 1) a complete statement of qualifications for IGI Resources; 2) a complete list of the services that IGI Resources provides to Intermountain Gas Company; 3) a complete list of other available services offered by IGI Resources not currently utilized by Intermountain Gas Company; and 4) a complete list of services and qualifications the Company finds necessary in a marketing service provider. According to Staff, the three-year term of the Procurement, Asset Management and Administrative Service Agreement between IGI Resources and Intermountain Gas will be completed on March 31, 2003. Even though the contract includes annual extension language and a 12-month termination notification requirement, Staff believes that completion of the 3-year primary contract provides the Company with a realistic opportunity to evaluate other marketers.

While the Company provided some of the requested information in the past, Staff believes that the Company should update this information plus add any other information from IGI or its competitors that the Company will use to evaluate contract renewal options.

Recommendation #7: The Company should investigate all conservation opportunities and develop cost-effective programs that could be offered to customers. A deadline should be set prior to the 2001-02 heating season to institute demand side management programs that will offer cost-effective measures to all customer classes. Because natural gas prices have declined considerably since the initiation of the investigation, Staff noted that the cost/benefit considerations have changed significantly. While Staff recognized that cost-effective opportunities will be more difficult to identify, Staff encouraged the Company to diligently investigate conservation opportunities and report its findings in the ongoing IRP process.

INTERMOUNTAIN'S UPDATED REPLY

On February 5, 2003, Intermountain filed a reply indicating that the Company "continues to support use of the PGA mechanism as an efficient tool in managing the natural gas cost component of our customers' rates." Intermountain restated its commitment to continue documenting and maintaining its natural gas purchasing policies and practices for Staff. Noting that measures promoting the efficient use of natural gas for Intermountain's residential, commercial and industrial customers were included in its 2002 Natural Gas Integrated Resource Plan, the Company stated that it will continue to endorse and encourage wise and efficient energy use.

COMMISSION DECISION

Based on the comments filed by Staff and the Company in 2001 and 2003, does the Commission wish to take any further action and/or close out the case?

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