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LISA D. NORDSTROM
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
IDAHO BAR NO. 5733

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO INCREASE ITS RATES FOR SERVICE.	**CASE NO. INT-G-02-3** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment Deadline issued in Order No. 29042 on June 3, 2002, submits the following comments.

On May 23, 2002, Intermountain Gas Company (Intermountain; Company) filed its annual Purchased Gas Cost Adjustment (PGA) Application (Application) with the Commission for authority to place into effect new rate schedules that will decrease its annualized revenues by $52.5 million. If its Application is approved, Intermountain states that customer rates will decrease on average by 24%. The Application also proposes retaining an over-collection of $8.2 million (an additional 4.7%) to promote rate stability. The Company requested an effective date of July 1, 2002.

THE APPLICATION

Intermountain Gas seeks to pass through to all of its customer classes a $52.5 million revenue decrease in gas-related costs resulting from: 1) a net decrease in costs for Intermountain's natural gas interstate transportation; 2) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment provision, and 3) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from Intermountain's deferred gas cost account.

The Company proposes to provide the $52.5 million reduction by implementing the following permanent change and temporary credit to its tariff rates for natural gas service and sales:

Permanent Adjustment:

▪ INT-G-01-3 Elimination of Temporary Surcharges/Credits	($40,994,177)
▪ Base Rate Change	($ 1,007,635)
▪ Fixed Cost Collection	($ 478,316)

Temporary Surcharges and Credits: Deferred Gas Costs (Intermountain Gas PGA Account 186)

▪ Market Segmentation	($ 2,369,508)
▪ Northwest Pipeline FERC settlements	($ 1,490,349)
▪ Fixed Gas Cost Misc.	$ 16,073
▪ Variable Cost Collection Adjustment	($ 9,800,811)
▪ Recovery of the Amount Deferred from Case No. INT-G-01-03	$ 3,505,756

Intermountain Gas proposes to allocate deferred gas costs from its PGA Account No. 186 balance to its customers through a temporary price adjustment effective during the 12-month period beginning July 1, 2002 and ending June 30, 2003. As of June 30, 2002, Intermountain Gas estimates it will have a negative variable gas cost balance in the amount of $10,038,839. The Company proposes to refund this amount via a per therm credit to all customers. Intermountain Gas recommends the following annualized change in rates per customer class to reflect the combined effect of both permanent and temporary adjustments:

Customer Class	Revenue	Proposed Average Decrease $ /Therm	Proposed Average Decrease % Change	Proposed Average Price $/Therm
RS-1 Residential	($ 7,414,546)	($0.20818)	(21.8%)	$0.74544
RS-2 Residential	($25,310,212)	($0.20524)	(24.2%)	$0.64330
GS-1 General Service	($18,892,039)	($0.20419)	(25.6%)	$0.59509
LV-1 Large Volume *	($ 631,513)	($0.20203)	(31.4%)	$0.44213

* T-1 tariff price plus the Weighted Average Cost of Gas (WACOG) $0.35295
WACOG = total commodity cost of gas ÷ total purchase therms

Transportation	Revenue	Proposed Average Increase (Decrease) $ /Therm	Proposed Average Increase (Decrease) %Change	Proposed Average Price $/Therm
T-1 Transportation	($221,884)	($0.00600)	(5.7%)	$0.09975
T-2 Transportation	($ 49,044)	($0.00202)	(7.1%)	$0.02656

STAFF AUDIT

$3.5 Million Deferred from Case No. INT-G-01-03

In Case No. INT-G-01-3, the Commission required Intermountain to continue to defer $3,505,756 of expenses pending further review. Order No. 28783 at 10. The continued review was necessary because it was difficult to determine if Intermountain's natural gas marketing agent, IGI Resources (Resources), had charged Intermountain a reasonable price for certain spot gas purchases. Staff and the Company have completed the review and determined that while it is not possible to determine the exact cost to Resources of gas it resold to Intermountain, the purchase prices paid by the Company were in a reasonable range. Staff recommends that the Company be allowed to recover the amount deferred from last year with interest calculated at the Company's short-term investment rate authorized by the Commission. Since July 2001, Resources has been purchasing gas for Intermountain in a manner that is appropriate and cost-effective for customers.

Current Record-Keeping and Information Retention

The Company's record-keeping and information retention have improved dramatically since last year. The Commission ordered Intermountain to "maintain documentation of the decision-making process IGI Resources uses when it purchases gas for the Company." *Id.* at 12. Staff has reviewed the documentation provided and is pleased with the Company's and IGI Resources' efforts to show how resource management decisions are made.

For example, Resources submits monthly reports to Intermountain showing current and expected needs, gas prices and a proposed strategy to meet the needs in the most efficient and cost-effective manner. When decision-makers hold a meeting regarding the needs of the system, the meeting and discussions are documented and the presentation materials retained. Finally, Intermountain keeps copies of bids received from formal RFPs and other purchasing opportunities along with analysis explaining resource management decisions. All of this documentation provides the required auditable information and assurance to Staff that the Company is indeed making decisions based on available information and expertise.

Audit of Current Period Gas Expenses

The current period gas expenses include costs for gas purchases, transportation, storage and for financial hedges to fix the price of gas for customers. Staff has audited these expenses and they appear to be reasonably incurred. During the audit, Staff discovered:

1. The Company entered into financial hedges to fix the price of gas for customers last winter and spring. The price protection provided by the hedges cost $14.9 million in addition to the actual gas purchased.

2. The surcharge put in place last year will over-collect approximately $6.8 million dollars from customers through June 2002. Because the surcharge was based on normalized revenues, the Company collected more than authorized when the weather was colder than normal. The over-collected amount will be returned to customers with interest through the proposed credit.

3. The Company continues to pursue capacity releases and segmentation credits that benefit customers.

4. The Company received a favorable FERC settlement of $1.49 million dollars from Northwest Pipeline that will be passed on to customers.

5. IGI Resources performed an RFP to solicit bids for the short-term needs of Intermountain's customers. The RFP resulted in the Company gaining favorable prices for its short-term needs that were not covered under other contracts.

6. IGI Resources solicited bids for Intermountain's financial hedges. While there is not time for a formal RFP process when searching for financial transactions, Resources contacted several reputable suppliers and secured the least expensive options. These contracts were adequately documented.

7. The Company has correctly calculated the amounts of the proposed permanent adjustments and the temporary surcharges and credits for the next PGA period.

WACOG AND PRICE STABILITY

Given the price volatility and significant rate increases experienced over the last two years, Staff made every effort to ensure that only the price of gas was included in rates. In Case No. INT-G-01-1 Staff performed an investigation into gas prices and continued to question the Company's gas purchases. Staff and the Company worked together to improve documentation, risk management, and planning practices to further assure customers that all parties involved were working in their best interest and the Company was making no additional profits from the high price of gas.

Staff's review of the 2002 PGA is no different. However, there appears to be a significant difference in this filing that has not been encountered in previous filings. The Company is requesting that the weighted average cost of gas (WACOG) in rates remain at $.35295/therm even though the Company's data indicates that the WACOG should be $.3200/therm. Every other PGA in the past two years established a WACOG based on the Company's expected cost and did not include any anticipated over-collection.

The Company requests authorization of the higher $.35295 WACOG rather than the $.3200 WACOG to provide price stability for customers over a longer period. Staff agrees that over-collection this year could offset a portion of a potential rate increase next year. However, it may not eliminate all increases that could occur. Likewise, over-collection will not guarantee overall lower natural gas rates in the future.

We know today that customers will receive approximately $10 million in temporary credits that will expire in 2003. Therefore, rates will increase by approximately $10 million unless gas prices decline or an over-collection is available to offset the loss of the credit next year.

If the WACOG remains at $.35295 and the cost of gas matches the price forecast in the Company's filing, then the Company will over-collect. Even though this over-collection will offset some of the expiring credit, customers' rates will likely increase due to WACOG changes next year. If the WACOG is left at $.35295 and the price of gas declines to the $.3000/therm range as indicated by more recent price forecasts, the Company will over-collect and customers could see an additional decrease next year. However, neither the Company nor Staff knows exactly what the price will be for the next year or what the forecast will be in the 2003/2004 PGA. Therefore, it is unlikely that prices will remain stable regardless of the WACOG pricing methodology in this case. What is certain is that customers will pay the actual cost of gas over the next two years independent of the WACOG established this year.

The Company does not wish to change the $.35295 WACOG at this time. The Company stated that it will continue to watch market indicators and if prices decline substantially for the future (2003/2004), it intends to file an "out-of-period" PGA to lower the WACOG. The Company further discussed with Staff the possibility of establishing a fixed date of September 30th for a thorough review of over-collections and market prices. This review could result in a further rate decrease prior to the winter heating season. The Company is also willing to provide Staff with ongoing forward market information to allow Staff to monitor the market along with the Company.

Staff agrees that customers desire rate stability and Staff recognizes that Company hedges in 2002/2003 resulted in stable prices that currently are below market. However, just as prudently incurred hedge prices would be included in the WACOG when they are higher than market prices, hedge prices should be included in the WACOG when they are lower than market prices.

When considering whether to allow Intermountain Gas to charge higher rates this year in order to keep rates lower next year, the Commission should keep in mind that Intermountain Gas' customer base is not static. Intermountain Gas' Integrated Resource Plan filed in April 2002 estimates a residential "baseline" growth of about 10,000 customers per year for the next several years due to new construction and conversions to gas. The Company's residential customer growth rate has averaged 5.5% per year for the past five years. In addition, many of the customers on the system this year may not be on the system next year. The result is a mismatch between customers who overpay this year and customers who underpay next year.

Given the size of the anticipated over-collection, the minimal impact on rate stability, the non-static nature of the customer base, and the uncertainty of forward market prices, Staff recommends that the Company further reduce rates by lowering the WACOG to $.3200/therm consistent with the costs anticipated in the Company's filing. Lowering the WACOG will provide an average 28% savings to customers today and is consistent with past PGA practices that establish the WACOG based on the Company's anticipated actual cost of gas. Staff further believes that $.3200/therm is a reasonable WACOG given the more recent price forecasts indicating that actual costs for 2002/2003 could be closer to $.3000/therm.

Even though customers' rates could increase due to WACOG changes in the 2003/2004 PGA cycle, customers will continue to only pay rates that reflect the actual cost of gas. The reduction will also assure customers that all costs and savings are directly passed through when they occur.

CONSUMER EVALUATION

Intermountain Gas' PGA Application filed on May 23, 2002 contained both the customer notice and press release. Customers were notified of the Application by bill stuffer and will have until June 26, 2002 to file comments with the Commission.

Staff reviewed the customer notice and press release and determined that both complied with the notice requirements of IDAPA 31.21.01.102. However, neither of these documents explicitly addressed Intermountain Gas' proposal to over-collect $8.2 million to promote rate stability next year. Although the Commission Staff had some concern that customers were not fully apprised of the proposed over-collection, the notices were allowed to stand without revision. The Commission addressed the issue in a press release issued on June 3, 2002, stating "The Company maintains that the over-collection can avoid or lessen a future price increase next year."

As of June 14, 2002, the Commission has received eight e-mailed comments from customers. All of the customers who commented supported the proposed decrease in rates. Seven of the eight customers commented on the Company over-collecting to hedge against the possibility of future gas cost increases. Two were in favor of the over-collection and five were opposed because, as one customer stated, "Rates should only increase when they need to, not so that someone else can hold my money in a bank account for the 'what if' reason." Another comment reflected a similar sentiment: "If it costs them $3.20, let's go with a rate that pays them $3.20, and we'll worry about next year next year."

Between July 17, 2001 (the effective date of the Company's previous rate increase) and June 11, 2002, the Idaho Public Utilities Commission's Consumer Assistance Staff has received 223 complaints and inquiries regarding credit and collection issues. Of that number, 159 were concerning disconnection of service and 33 were from customers who were asked to pay a deposit either to reconnect service or to keep service. This was an increase over the same 2000-2001 time period when Staff received 121 complaints and inquiries regarding credit and collections issues, of which 86 concerned disconnections and only 15 involved deposits.

Together, these figures dramatically emphasize the impact recent rate hikes have had on customers and their ability to pay higher utility bills. Customers who did not make payments during the winter moratorium period found themselves faced with exceedingly high bills in March when the disconnection moratorium expired. Faced with a growing number of past due accounts, Intermountain Gas increased collection activities to make payment arrangements whenever possible and, if necessary, disconnect service. The Company now typically requests payment of a deposit as security on an account before reconnecting service. Staff anticipates that current policies regarding collection efforts and deposit demands will continue. Although Intermountain Gas' collection policy is now less liberal, it meets the requirements of the Commission's Utility Customer Relations Rules.

Although rates will decrease as a result of the Company's proposal, there will continue to be customers who cannot pay their bills. Therefore, Staff recommends that Intermountain Gas maintain its education efforts and continue providing customers with conservation information in an ongoing effort to help customers reduce their energy needs. For example, as recently as the latest billing cycle, the Company included a pamphlet describing energy conservation tips along with the notification of the proposed rate decrease in customers' bills.

Intermountain Gas is working on a plan to adjust level pay amounts for customers who participate in that program. The Company has approximately 47,000 customers participating in the level pay program. Approximately 40,000 customers are considered "regular" level pay customers. Their level pay amounts are adjusted annually during the months of April, May and June. The remaining 7,000 customers, referred to as "anniversary" level pay customers, have their level pay amounts recalculated in the month they originally signed up for the program. To decide the best course of action, the Company must consider many variables, including how to adjust anniversary level pay amounts for customers who currently have sizable negative balances. The Company has told Commission Staff that due to the complexity of the programming involved, it does not anticipate completing its plan until June 21, 2002. The Commission Staff recommends that the Company be required to provide its final plan to the Commission for review prior to its implementation.

STAFF RECOMMENDATIONS

Staff recommends that the Company:

1. Reduce the WACOG to $.3200/therm and re-file all appropriate tariffs.

2. Be allowed to pass through to customers the proposed permanent adjustment and the proposed temporary surcharges and credits as filed.

3. Be allowed to recover the $3.5 million of deferred costs from last year with interest at the current authorized rates and methodology.

4. Continue to record and retain copies of information used to make important decisions regarding the purchase of gas and financial transactions.

5. Continue to file updated WACOG projections monthly through September 2002 and quarterly thereafter.

6. Continue to file monthly summaries of its purchased gas transactions and related deferred balances.

7. Maintain its education efforts and continue providing customers with conservation information in an ongoing effort to help customers reduce their energy needs.

8. Provide its final plan for adjusting level pay amounts for customers who participate in the level pay program to the Commission for review prior to its implementation.

Respectfully submitted this 19th day of June 2002.

Lisa D. Nordstrom

Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Alden Holm
Dan Graves
Michael Fuss

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JUNE 2002, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-02-3, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

MICHAEL E HUNTINGTON
VP GOVERNMENTAL AFFAIRS
INTERMOUNTAIN GAS COMPANY
PO BOX 7608
BOISE ID 83707
E-MAIL – mhunting@intgas.com

MIKE McGRATH
INTERMOUNTAIN GAS COMPANY
PO BOX 7608
BOISE ID 83707
E-MAIL – mmcgrath@intgas.com

MORGAN W RICHARDS JR
MOFFATT THOMAS ET AL
PO BOX 829
BOISE ID 83701-0829
E-MAIL – mwr@moffatt.com

Jo Nelson
SECRETARY