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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS)
COMPANY'S APPLICATION FOR) **CASE NO. INT-G-21-04**
AUTHORITY TO UPDATE RATES TO)
REFLECT PURCHASED GAS COST) **COMMENTS OF THE**
ADJUSTMENTS) **COMMISSION STAFF**
)
)
)

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On August 6, 2021, Intermountain Gas Company (“Intermountain” or “Company”) requested authority to place into effect on October 1, 2021, new rate schedules that would increase its annualized revenues by \$24.2 million, or approximately 9.6%.

The Company’s rates include a base-rate component and a gas-related cost component. The base-rate component is intended to cover the Company’s fixed costs to serve its customers – for example, the Company’s costs for equipment and facilities to provide service – and infrequently change. The Commission approved the Company’s current base rates in Order No. 33757, Case No. INT-G-16-02.

The gas-related cost component of the Company’s rates is at issue in this case. Specifically the Company seeks to change its rates to pass through to customers changes in gas-related costs resulting from: (1) costs billed to the Company from firm transportation providers (including Northwest Pipeline LLC); (2) an increase in Intermountain’s Weighted Average Cost of Gas (“WACOG”); (3) an updated customer allocation of gas-related costs pursuant to the Company’s Purchased Gas Cost Adjustment (“PGA”) provision; (4) the inclusion of temporary surcharges and credits for one year relating to natural gas purchases and interstate transportation costs from Intermountain’s deferred gas accounts; (5) benefits generated from the Company’s management of its storage and firm capacity rights on various pipeline systems; (6) benefits associated with the sale of liquefied natural gas from the Company’s Nampa, Idaho facility; (7) a portion of the costs accrued related to the Company’s latest general rate case, Case No. INT-G-16-02; and (8) the recovery of deferred in-person customer payment fees. The Company seeks to eliminate the temporary surcharges and credits included in its current prices during the past 12 months under Case No. INT-G-20-05.

STAFF ANALYSIS

Staff examined the Company’s Application, workpapers, and exhibits for this case and confirmed: (1) the PGA proposal would not affect the Company’s earnings; (2) the deferred costs are prudent and properly calculated; and (3) the Company’s WACOG request is reasonable. Staff recommends that the Company’s Application be approved.

Table No. 1 summarizes the impact of the proposed changes on customer classes.

Table No. 1: Proposed Change by Customer Class

Customer Class:	Change in Class Revenue	Average Change in \$/Therm	Average % Change	Average Price \$/Therm
RS Residential	\$15,112,739	\$0.05639	9.01%	\$0.68219
GS-1 General Service	\$ 8,410,901	\$0.06502	11.96%	\$0.60855
LV-1 Large Volume	\$ 620,980	\$0.05521	15.99%	\$0.40041
T-3 Transportation Volumetric	\$ (12,253)	\$(0.00022)	-1.95%	\$0.01104
T-4 Transportation Volumetric	\$ -	\$ -	0.00%	\$0.01368
T-4 Transportation Demand Charge	\$ 31,690	\$0.00197	0.70%	\$0.28189
TOTAL	\$24,164,057	\$0.03145	9.62%	\$0.35839

Overall, the Company's proposal increases annual revenue by approximately \$24.2 million which is detailed in Table No. 2 below.

Table No. 2: Proposed Change to Annual Revenue

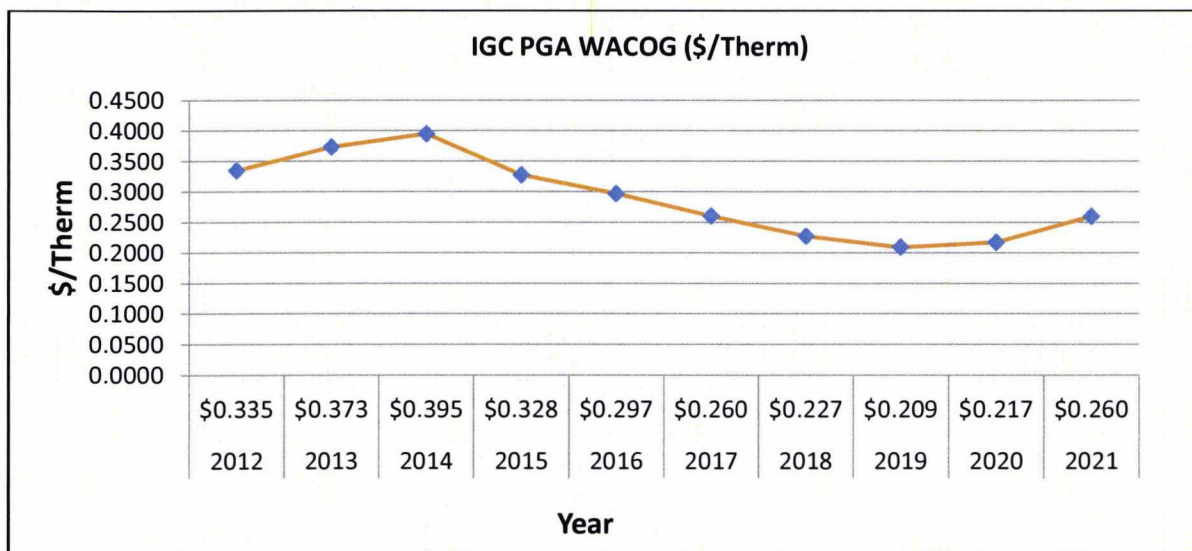
Deferrals:		
Removal of INT-G-20-05 Temporary Credits and Charges		\$13,288,766
Additional INT-G-20-05 Temporary Credits and Charges		
Fixed Deferred Gas Costs	\$(12,333,136)	
Variable Deferred Gas Costs	9,257,683	
Lost and Unaccounted for Gas	(546,602)	
LNG Sales Credit	(717,972)	
Deferred General Rate Case Costs	74,194	
In-Person Payment Fees Deferral	64,817	
Total Additional Temporary Credits and Surcharges		<u>\$(4,201,016)</u>
Total Deferrals		\$ 9,087,750
Fixed Cost Changes:		
NWP Full Rate Reservation	\$ (16,583)	
NWP Discounted Reservation	98,115	
Upstream Full Rate	133,477	
Upstream Discounted	(585,455)	
SGS-2F and LS-2F	3157	
Other Storage Costs	(20,100)	
Total Fixed Cost Changes	\$ (387,389)	
Changes in WACOG	\$ 17,574,322	
Reallocation and True-Up of Fixed Costs	<u>\$ (2,109,106)</u>	
Total Price Changes		\$15,077,827
Total Deferral and Price Changes		\$24,165,577
Total Annual Revenue Change		<u>\$24,164,057</u>
<u>Differences due to rounding</u>		<u>\$ 1,520</u>

The Company eliminated \$12,333,136 in temporary credits and surcharges that were part of last year's PGA, Case No. INT-G-20-05. The proposed temporary credits and surcharges in this Application return \$4,201,016 to customers. This amount consists of in-person payment fee deferral, market segmentation and capacity release revenues, interest, per therm amortization of deferrals, and over collections from last year's PGA. Additionally, a credit for off-system sales of Liquefied Natural Gas, and a true-up of the of benefits from the Tax Cuts and Jobs Act are included in this request.

Weighted Average Cost of Gas - WACOG

The WACOG is the Company's average variable cost to buy and transport natural gas to meet customer estimated annual requirements. The WACOG components include the volumetric interstate transportation rate, the city gate costs, the IGI Resources administrative fees, and the Gas Technology Institute (GTI) charges. The WACOG does not include fixed capacity costs for interstate transportation, liquid storage, and underground storage. The Company's proposed WACOG of \$0.26000 per therm is an increase of 19.82% from the prior 2020 WACOG of \$0.21699 per therm. This increase in the WACOG represents about \$17.5 million increase to the Company's billed revenues. Chart No. 1 below shows the Company's historical WACOG price trend.

Chart No. 1: Weighted Average Cost of Gas (Per Therm)



Market Fundamentals & Price Analysis

Although the Company hedges or stores much of its forecasted supply at fixed prices, market fluctuations can impact the WACOG. Staff analyzed the Company's projected cost to purchase natural gas by comparing the Company's price projection to forecasts from several national and regional organizations, including the Energy Information Administration ("EIA")¹ and the Northwest Gas Association ("NWGA"). Staff believes the Company's projected natural

¹ EIA Natural Gas Weekly <https://www.eia.gov/naturalgas/>

gas costs are reasonable. The EIA Short-Term Energy Natural Gas Outlook² states:

In July, the natural gas spot price at Henry Hub averaged \$3.84 per million British thermal units (MMBtu), which is up from the June average of \$3.26/MMBtu. We expect the Henry Hub spot price will average \$3.71/MMBtu in 3Q21 and \$3.42/MMBtu for all of 2021, which is up from the 2020 average of \$2.03/MMBtu. Higher natural gas prices this year primarily reflect two factors: growth in liquefied natural gas (LNG) exports and rising domestic natural gas consumption for sectors other than electric power. In 2022, we expect the Henry Hub price will average \$3.08/MMBtu amid rising U.S. natural gas production.

Risk Management

Staff examined how the Company manages price and risk given the Company’s market purchases, storage, and interstate transportation capacity to determine whether the Company reasonably purchased natural gas to minimize risk to ratepayers. The Company’s approach is flexible, by allowing it to opportunistically buy gas, manage storage, and utilize interstate transportation capacity as market conditions change. Overall, Staff believes the Company’s strategy and practices associated with managing its resource portfolio provides reasonable price stability for customers.

The Company fulfills its mainline requirement with hedges, spot market purchases, underground storage, and liquified natural gas (“LNG”) storage. Underground storage enables the Company to purchase natural gas for the upcoming heating season during the summer when prices are typically lower. When opportunities arise, the Company manages its interstate transportation capacity, selling surplus capacity into the market. Table No. 3 shows the Company’s seasonal hedges over the last seven years.

Table No. 3: Hedging Ratios

% Locked-in Gas by PGA Year ³							
	2015	2016	2017	2018	2019	2020	2021
Non-Summer Months (Oct.-Mar.)	78	82	80	77	77	74	67
Summer Months (Apr.-Sept.)	62	55	49	49	82	72	46
Full Year	74	76	73	70	78	74	70

² EIA STEO link <https://www.eia.gov/outlooks/steo/report/natgas.php>

³ % Locked-in gas includes storage volumes that are both hedged and index purchases.

Purchasing

Staff confirmed the Company's purchasing practices were reasonably adapted to meet current market conditions. As in recent years, about 30% of the Company's total throughput is purchased at index or spot prices. Staff believes the Company's hedging ratios complement current market conditions.

The Company continues to utilize index or spot purchases, allowing it to take advantage of low prices for real-time needs, while hedging against upward price risk by purchasing gas while prices are low and storing it for future consumption. The Company has locked-in the price of about 70% of its gas purchases for 2021 by depositing it into storage. This amount is about 4% lower than last year.

Staff reviewed the Company's natural gas purchases during the PGA period by examining a 7-month sample of invoices. Staff confirmed the natural gas purchases reconciled with the amount of natural gas purchases reported in the monthly deferral reports.

Natural Gas Underground Storage and Interstate Transportation

The Company delivers domestically produced natural gas to its city gates through the Northwest Pipeline. The Company also delivers natural gas from Canada by using pipeline capacity on Gas Transmission Northwest (GTN), TransCanada's Foothills Pipeline system (Foothills), and TransCanada's Alberta system known as Nova Gas Transmission (NOVA).

Permanent transportation and storage costs reflect a decrease of \$1,083,191, which is a net reduction of \$695,389 from the decrease of \$387,389 in Case No. INT-G-20-05 as shown in Exhibit No. 1, Line 20 column, E. Because natural gas added to storage is procured during the summer season when prices are typically lower than the winter, the Company's cost of storage gas is typically lower than what could be procured in winter months. The Company has also entered into various fixed price agreements for portions of underground storage and other winter flowing supplies to further stabilize prices.

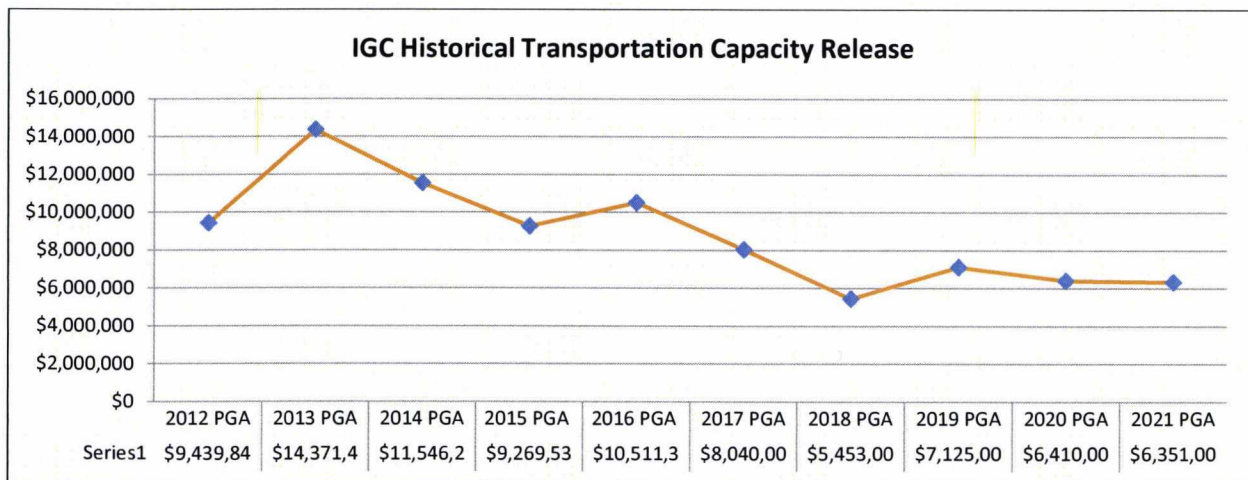
Management of Pipeline Capacity

Staff reviewed the Company's procedures for maintaining and releasing pipeline capacity and believes the Company's capacity planning was prudently conducted. The Company holds

excess capacity for increased demand and mitigates the additional costs of this practice by selling it back into the market, benefitting customers through the PGA.

In last year's PGA filing, the Company included a \$6.4 million credit to customers embedded in its forecast. The Company's capacity release revenue for the current PGA is forecasted to be \$6.3 million, which will be credited back to customers over the coming PGA year. If capacity release revenues exceed the \$6.3 million embedded in the forecast, customers will receive an additional credit in the 2022 PGA. These credits are included in the Fixed Deferred Gas Costs listed in Table No. 2.

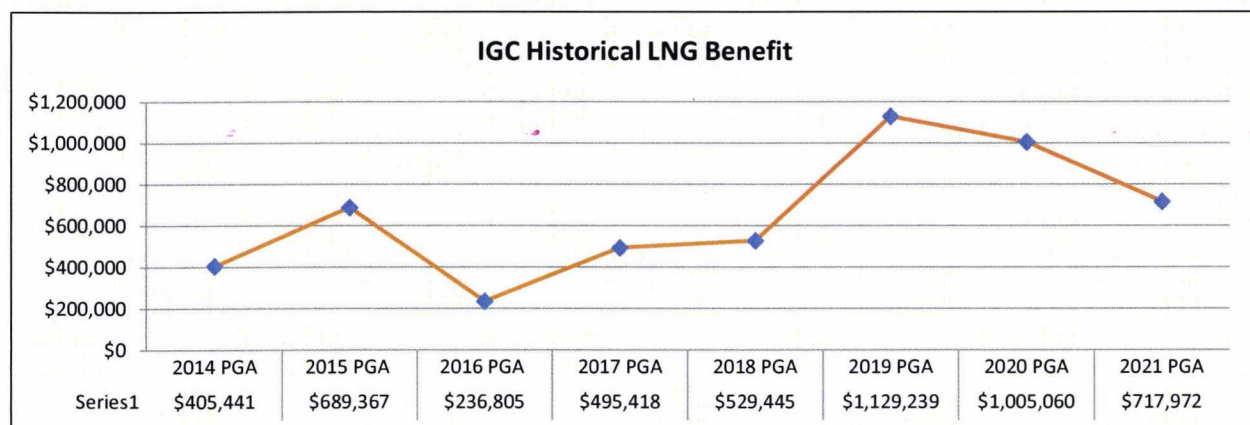
Chart No. 2: Historical Capacity Releases



LNG Storage

In Order No. 32793, the Commission authorized the Company to sell excess LNG capacity from its Nampa LNG facility to non-utility customers. Pursuant to that Order, the Company provides a credit to ratepayers of 2.5 cents per gallon of LNG sold for costs related to O&M expenses. Further, the Company is required to share 50% of the total net margin from the non-utility sale of LNG with ratepayers, up to \$1.5 million, and then 70% on any amounts greater than \$1.5 million. The Company proposes to credit ratepayers \$717,972 for revenues earned from the non-utility sale of LNG. See Chart No. 3. Staff verified the Company's credit to ratepayers for non-utility sales of LNG was calculated correctly.

Chart No. 3: LNG Sales Ratepayer Benefits



Lost and Unaccounted for Gas and Line Break Rate - LAUF

Lost and Unaccounted for (“LAUF”) Gas is essentially the difference between the volume of natural gas delivered to the distribution system at the city gate and volume of gas billed to customers at the meter. During the period from the Company’s 1985 General Rate Case until conclusion of the 2016 General Rate Case, the Company recovered a portion of LAUF Gas amounts through a \$0.00182 per therm charge, embedded in base rates. Any additional cost or credit was administered annually in the PGA. In the 2016 General Rate Case, the embedded rate of \$0.00182 per therm was removed resulting in recovery of LAUF Gas solely in the PGA.

This year, the Company’s LAUF Gas rate is -0.2096% (found gas). The Company’s LAUF rate continues to be below the maximum allowable level of 0.85% specified in Commission Order No. 30649. The Company allocates LAUF Gas at 75% to the core customers (Residential and General Service) and 25% to the industrial customers (Large Volume and Transportation) through a per therm surcharge or credit. In this PGA, the total credit for LAUF is \$547,588 of which \$410,691 is credited to core customers and \$136,897 is credited to industrial customers.

The Company charges a Line Break Rate to contractors or other parties who are responsible for damage to the distribution system causing a gas leak. The Company proposes to increase the Line Break Rate from the current rate of \$0.39010 per therm to \$0.42443 per therm. The proposed Line Break Rate includes a \$0.16443 Fixed-Cost Component (Transportation Cost) per therm and a \$0.26000 Variable-Cost Component (WACOG) per therm for a total of \$0.42443. Both components of the Line Break Rate are determined annually with the PGA

filing. Staff believes the Company's calculation of the proposed Line Break Rate is consistent with Order No. 33139.

Rate Case Expenses

In Order No. 33887, Case No. INT-G-17-05, the Commission authorized the Company to establish a regulatory asset account to recover the external costs associated with the general rate case, Case No. INT-G-16-02. These expenses totaled \$378,614 and are to be amortized over five years (\$75,723 per year) through the annual PGA mechanism. During this deferral period, the Company collected \$74,194—\$1,529 under the authorized rate case amortization rate of \$75,723. Staff verified the annual calculations and confirmed that the expenses were properly amortized, and this year's recovery amount was properly calculated.

Payment Fees Deferral

In Order No. 34099, Case No. INT-G-18-01, the Company was directed to create a regulatory asset to capture the costs associated with in-person customer pay station transactions handled by Western Union. Further, the Company was authorized to seek recovery of those costs in the Company's PGA beginning in 2019—until February 1, 2021, or until the Company files its next general rate case, whichever comes first. This authorization was extended in Order No. 35047, Case No. INT-G-21-02. As of June 30, 2021, the balance of the total deferred In-Person payment fees was \$64,817. This is composed of \$46,285 for Residential Service (RS) customers and \$18,532 for General Service (GS-1) customers. Staff verified that this balance is correct.

Quarterly Reports

In Order No. 34448, the Commission found that quarterly WACOG and monthly deferred cost reports provide useful information, assist Staff with determining whether to audit earlier than planned, and whether an interim filing might be needed. In its Application, the Company requested that the Commission maintain the quarterly requirement of filing for the Deferred Gas Cost Balance, LNG Sales Cost Benefit Analysis, and WACOG reports. The Company stated that it is committed to notifying the Commission if an interim filing might be needed. Staff

believes quarterly reporting is reasonable given the Company's commitment to notify the Commission.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Staff reviewed the documents and determined that both meet the requirements of Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01.125. The notice was included with bills mailed to customers beginning August 11, 2021 and ending September 9, 2021.

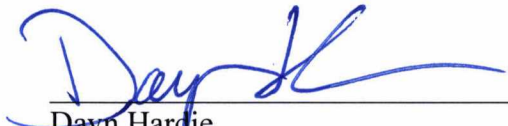
The Commission set a comment deadline of September 10, 2021. Some customers in the last billing cycles will not have received/and or had adequate time to submit comments before the deadline. Customers must have the opportunity to file comments and have those comments considered by the Commission. Staff recommends that the Commission accept late filed comments from customers. As of September 9, 2021, one comment had been filed in opposition to the Company's proposed increase.

STAFF RECOMMENDATIONS

After examining the Company's Application, natural gas purchases, and deferral activity for the year, Staff recommends the Commission:

1. Approve the Company's Application, increasing revenues by \$24.2 million as shown in Table No. 2, and approve the proposed WACOG amount of \$0.26000 per therm;
2. Approve the Company's proposed Tariff Rate Schedules RS, GS-1, IS-R, IS-C, LV-1, T-3, and T-4 as filed with the Application;
3. Direct the Company to continue filing quarterly reports reflecting deferred gas costs and WACOG projections;
4. Order the Company to file an adjustment to its PGA-related rates, if gas prices significantly deviate from projections; and
5. Accept late-filed comments from customers.

Respectfully submitted this ^{10th} day of September 2021.



Dayn Hardie
Deputy Attorney General

Technical Staff: Kevin Keyt
Johan Kalala-Kasanda
Curtis Thaden

i:umisc/comments/intg21.4dhkkjkt comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10th DAY OF SEPTEMBER 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. INT-G-21-04, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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