July 9, 2001

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington St.,
P. O. Box 83720
Boise, ID 83720-0074

Re: IPUC Case No. INT-G-01-3
Comments of the Commission Staff

Dear Jean:

In response to the Comments of the Commission Staff in the above referenced Case, Intermountain Gas Company hereby submits its reply remarks.

The Commission Staff recommends that this Commission deny the Company's proposed tracking rate increase. As one of their pivotal arguments to support their position, the Staff purports that, after accepting the Staff's position, Intermountain's customers will receive "an overall average decrease of approximately 9% in rates for the 2002 PGA." By way of several footnoted assumptions regarding the costs for natural gas twelve (12) months into the future, the Staff also "anticipates that residential and general service rates would decrease by 7-16% in 2002." Within the last two months, the PGA mechanism was extensively reviewed and evaluated by the Commission Staff and deemed to be an acceptable tool in administering gas cost changes to Intermountain's customers. Notwithstanding their prior conclusions, the effect of the Staff's comments in this proceeding would now be to abandon the PGA mechanism and replace it with speculative assumptions about the future. The PUC Staff's speculative assumptions are not supported by facts that Intermountain currently has available. Additionally, by continuing to extend under collected deferred gas costs several years into the future, as would occur by way of the Staff's recommendation, the prices paid by Intermountain's customers would in no way be indicative of the market and deferred costs would be collected from customers that did not contribute to the buildup in the under collection. The Company would also like to note that a review of the Staff's figures on page 2 of their Comments would lead the reader to believe that \$9.5 Million of under collection would remain under the Staff's proposal at July, 2002 and would therefore have to be extended through July, 2003. This conclusion would be incorrect. A review of the same figures reveal that \$14.6 Million of under collected variable gas costs would remain at July 2002 under the Staff's proposal.

The Staff also argues that Intermountain's customers have "not received the optimized benefits available from the cost-lowering tools Resources has used for other customers" and thereby the

Staff would hold in abeyance without interest $3.5 Million in natural gas purchases. In support of that notion on page 6 of their remarks, the Staff quotes a comment made by Mr. Randy Schultz, President of BP Energy Company to the effect that "on average IGI Resources secured gas for certain industrial customers at prices that were less expensive than published market indices." Unfortunately, the PUC Staff is taking the comment of Mr. Schultz out of context. The point of Mr. Schultz's remarks to the Staff was to describe a product offering to its industrial customers identified as the "IGI pool supply".

This product operates much like a mutual fund whereby, with IGI's expertise and continuous presence in the gas futures pricing environment, IGI can be well situated to take advantage of certain, what it believes to be, pricing opportunities at various times. The industrial customer elects to assign a portion of their seasonal or annual supply needs to the IGI pool and IGI then trades in and out of positions through to the start of the particular pricing period. The industrial customer then agrees to pay whatever IGI's resultant weighted cost of gas is for the pool for the period chosen. Mr. Schultz made the comment that last year's pool customers received a weighted gas price for the period which was less than the published price index for the same period. Mr. Schultz also indicated that certain pools being priced for the upcoming periods are now more expensive than the index or future price, so the industrial customers who are now participating are paying more than index. So it does work both ways.

The Company believes that to use a comment out of context as the basis to deny or delay the timely charging to customers for what they have used is not proper. Invoices provided to the Staff detailed the fact that Intermountain's customers actually paid less than the market-based index on several instances. The Company supplied to the Staff on Friday, July 6th, additional invoice back-up which support the market responsive prices paid for natural gas purchases during the period in question. The Company will continue to work with the Staff over the next several days to help them further identify the appropriateness of those costs. If during this review the Staff still contends that certain costs were imprudently incurred, the existing PGA mechanism allows for a true up of these disputed amounts during the follow-on PGA period.

Intermountain would also like to comment on a standard that the PUC Staff appears to be advocating for the first time in this case. On page 5 of the Staff comments, they ask "whether Intermountain pays for gas at cost or if the gas was purchased at the best price available." At the top of page 7 a different standard is proposed when the PUC Staff states, "If Resources' long-term contracts are the least expensive gas available, then it is appropriate to purchase IGI gas for Intermountain." The Staff appears to be applying hindsight when evaluating the IGI Pool price in relation to the market price. See also PUC Staff Recommendation No. 3 at the bottom of page 11. Long ago, this Commission decided that the proper standard was not "least cost" because there are other important factors besides cost that customers highly value such as reliability of delivery. Timing regarding when the price is agreed upon, load factors and interruptibility can also effect the price that is paid. The Staff's proposed test is both unfair and unrealistic. The Commission's traditional test of prudency should continue to be applied and Intermountain should be allowed to collect the $3,505,756.35 at this time.

While strongly disagreeing with the Staff's deferral positions, the Staff's recommendations dealing with enhanced invoice documentation are constructive and as the Staff has said, the Company has now adopted them and will consider any further recommendations to make the Staff's audit function easier.

The Company appreciates the opportunity to respond to the Comments of the Commission Staff and does hereby respectfully petition that this Commission adopt the prices as filed by Intermountain in its Amended Application of July 2, 2001.

Sincerely,

Michael P. McGrath
Director
Market Services and Regulatory Affairs

MPM/slk