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Idaho Public
Utilities Commission

EXECUTIVE OFFICES
INTERMOUNTAIN GAS COMPANY
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June 24, 2002

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

Re: INT-G-02-03
Reply Comments of Intermountain Gas Company

Dear Ms. Jewell:

Intermountain Gas Company hereby respectfully submits for consideration by this Commission, a response to the Comments of the Commission Staff filed as part of the above referenced Case.

Natural Gas is a commodity traded in the open market and, as with all other commodities, is subject to the same laws of supply and demand. The supply of natural gas seeks equilibrium with demand without ever actually achieving it. Natural gas prices become volatile, within a range of volatility, as demand seeks symmetry with available supplies or visa versa. As was dramatized in recent months, high natural gas prices indicative of weakening supplies spurred on additional exploration and production and, as natural gas supplies became more plentiful, market prices declined.

Intermountain Gas Company has sought, whenever possible, to mitigate the impacts of price volatility to its customers by employing various gas management tools and by offering unit prices to its customers that remain constant for a prescribed period of time. As has always been the case, during the period when our customers are relying on stable energy prices, natural gas is costing the Company either more or less than what the customer is currently paying and the difference is deferred, with interest, for subsequent review by this Commission.

Today's futures market forebodes increasing natural gas prices to Intermountain's customers for the time following the PGA period currently being considered by this Commission. It remains our collective opinion that these futures prices do not warrant locking-in simply for the sake of energy price stability. The Company believes that current futures prices, subject to the laws of supply and demand, are poised for further softening. However, liquidity in the market is sustained by contrary opinions and prices could indeed escalate to the levels predicted by the collective market.

In the Company's judgement it remains a viable option to facilitate customer price stability for the longer period by granting a large price reduction now while, at the same time, allowing for an accrued credit balance with its accompanying interest. This credit balance will help offset both the impacts of the reversing temporary credits included within the Company's Application as well as the impacts from what the market predicts will be escalating natural gas prices for the future. The Company continues to remain vigilant in monitoring natural gas prices. As an alternative to the Staff's proposal to further reduce the WACOG at this time, we have committed to a further lowering of prices before the winter heating season if market prices decline to a level that facilitates price stability. We would of course include the pass through of any deferred gas cost credits that may exist at the time to include interest to the customer.

What is in the best interests of the customer over the intermediate future is obviously a judgement call. While the Company believes waiting until later this year and therefor before the winter heating season is appropriate before considering the merits of a further incremental adjustment, the Company also acknowledges the merits in the Staff's remarks to incrementally reduce the proposed WACOG to $0.3200/therm at this time.

Intermountain Gas Company appreciates the opportunity to respond to the comments made by the Staff and again requests that the above remarks and opinions are considered in the final ruling given by this Commission.

Very truly yours,

Michael P. McGrath

Michael P. McGrath
Director
Market Services and Regulatory Affairs