

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
LEGAL
WORKING FILE**

FROM: TERRI CARLOCK

DATE: AUGUST 19, 2005

**RE: IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION
FOR AUTHORIZATION TO ISSUE AND SELL DEBT SECURITIES.
CASE NO. INT-G-05-01.**

On July 25, 2005, Intermountain Gas Company (IGC, Company) applied to the Idaho Public Utilities Commission for authority to replace the existing line of credit with a revolving line of credit agreement for \$45,000,000 for a period of 5 years with the option to borrow an additional \$25,000,000. The proceeds will continue to be used to refinance existing indebtedness, provide for working capital, deferred gas costs and general corporate purposes including interim construction financing and medium term needs prior to the issuance of long-term debt. This primary line is an increase of \$10,000,000 from the \$35,000,000 currently authorized by Order No. 29413 through January 2007. The credit line increase and the optional line are needed to cover increased plant expansions, gas price volatility and hedging collateral if required. The new authority as requested is an early renegotiation of the line of credit to take advantage of favorable terms for a longer period of time. Bank of America Securities LLC will arrange a syndicate of financial institutions, including Bank of America, as lenders. IGC will continue to make quarterly reports to the Commission showing balances outstanding and the interest rate.

The interest rate will be based on London Interbank Offered Rates (LIBOR) or a Base Rate plus applicable margins. The Base Rate is defined as the higher of Bank of America's Prime Rate or the Federal Funds Rate plus 0.5% depending on the capitalization ratio of Intermountain Gas Company at that time. IGC will continue to pay commitment fees also based

on the capitalization ratio of Intermountain Gas Company at that time. IGC's common equity ratio as of May 31, 2005 is 49.6% (50.4% capitalization ratio) with \$17,750,000 of the revolving note outstanding. The current rates are approximately 3.57% for LIBOR and 3.5% for the Federal Funds rate making the current interest rate approximately 4 – 4.5%.

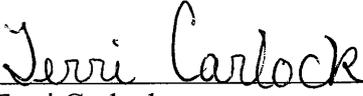
Staff recommends approval of the Application for the five years. With the longer authorization period, Staff recommends that IGC also file its capitalization ratio with its quarterly reports. If the capitalization ratio reaches 60% debt, Staff recommends that IGC be required to file a letter with the Commission stating that a 60% debt ratio has been exceeded. Staff further recommends that IGC meet with Staff to discuss capitalization issues to evaluate if the high debt ratio is a short-term variation or if additional actions to reduce the debt level are required. The Company agrees with these recommendations.

All fees have been paid in accordance with *Idaho Code* § 61-905.

COMMISSION DECISION

Should Intermountain Gas Company's request to enter into revolving line of credit agreements as discussed above for \$45,000,000 and an option for an additional \$25,000,000 for the five-year term be approved?

Should the additional requirements recommended by Staff be approved?



Terri Carlock

tcarloc\intg05.1.decm