EXECUTIVE OFFICES

INTERMOUNTAIN GAS COMPANY

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IDAHO PUBLIC
UTILITIES COMMISSION

March 27, 2013

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

RE: Intermountain Gas Company
Case No. INT-G-13-02

Dear Ms. Jewell:

Enclosed for filing with this Commission is an original and seven (7) copies of Intermountain Gas Company's Reply to Staff's and the Northwest Industrial Gas User's comments in the above referenced Case.

Please acknowledge receipt of this filing by stamping and returning a copy of this Application cover letter to us.

If you have any questions or require additional information regarding the attached, please contact me at 377-6105 or Dave Swenson at 377-6118.

Very truly yours,

Scott W. Madison
Executive Vice President – General Manager

cc: K.F. Morehouse
D. Haider
M. Parvinen

Scott Madison
Executive Vice President & General Manager
Intermountain Gas Company
Boise, Idaho 83707
Telephone: (208) 377-6105

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of INTERMOUNTAIN GAS COMPANY for Authority to Sell LNG	Case No. INT-G-13-02 **REPLY OF INTERMOUNTAIN GAS COMPANY**

Pursuant to Idaho Public Utilities Commission ("Commission") Order No. 32735 in the above referenced Case, Intermountain Gas Company ("Intermountain" or "Company), files this Reply to Comments filed by the Commission Staff ("Staff") and, separately, the Northwest Industrial Gas Users ("NWIGU").

STAFF RECOMMENDATIONS

Although Intermountain does not concur with all the information provided in Staff's analysis, Intermountain will only respond to Staff Recommendations that the Company disagrees with or takes exception to.

RECOMENDATION #4:

Require the Company to credit 70% of the total net margin to ratepayers for sales of LNG through the PGA, allowing the Company to keep 30%.

COMPANY REPLY:

There is no down-side risk to the customers in the Company's proposal. The Company is proposing 50/50 as a means of providing a return to customers for the use of the core asset. Equally, the Company is proposing 50/50 for the significant level of risk that the Company is willing to absorb. Staff provided a good explanation of those risks on page 8 of the Staff Comments. Clearly the risks as well as the markets themselves are substantially different than the

off-system sales provided by the electric utilities. Also, customers are being compensated the first 5 cents (2.5 cents for O&M reimbursement and 2.5 cents for future capital investment) off the top before any sharing.

The basic reason for the Company's proposal is that yes customers have essentially provided the investment but it is the Company taking the risk and totally insulating customers from any risk. The Company chose the 50/50 level because it felt the risk to the Company and the return to rate payers were equally weighted at 50/50. Anything less than 50/50 would materially affect the Company's decision on whether the service would be worthwhile at the magnitude or revenue levels the Company is anticipating especially if margins tighten when the market more fully develops. Staff has identified what the Company would consider to be the maximum potential revenue to be shared. The Company is not anticipating reaching these revenue levels.

Also, the Company considers this service to be temporary while the capacity is available and while the market develops and there is adequate competition. The Commission should consider this an opportunity to help develop a fledgling service that IGC expects to participate in during its infancy while there are potential benefits.

As an alternative, the Company suggests sharing 50/50 until the Company's share totals $1.5 million and then 70/30 after that. This will provide adequate sharing to compensate for risks and returns of both the customer and the Company based on expected revenues as well as provide exceptional benefits to customers if the service performs beyond expectations.

RECOMMENDATION #5:

Require the Company to prepare a review of all costs and benefits as a result of selling LNG as part of the annual PGA filing.

COMPANY REPLY:

The Company agrees to a review of the costs and benefits as a result of selling LNG as part of the PGA filing, but any required analysis to separate "internal" and "incremental" O&M would be burdensome at best. This is why the Company specifically looked at making sure customers would be more than held harmless with the 2.5 cent deferral for O&M. Certainly if the Company believes the credit is too high, the burden would be on the Company to evaluate and propose an

adjustment. If the Company were to be able to specifically identify those costs, we would have proposed that the costs be a cost of the sale. There would then be no need for the 2.5 cent collection and the difference would just fall to margin to be allocated. In this scenario, the customers would lose out on our proposal to allow LNG sales to off-set the base rate collection of LNG O&M expenses.

RECOMMENDATION #6:

As part of the next IRP filing, require the Company to prepare a review of the method and framework for selling LNG and whether the Company should continue to sell it.

COMPANY REPLY:

The general focus of an IRP is to determine what the future loads of the Company are likely to be and identify how the Company intends to potentially meet the identified requirements. The IRP will certainly identify if the LNG is entirely needed to meet core peaking needs however it seems inappropriate to use the IRP process to examine whether to continue the service or not. The Company will cease the service when 100% of the capacity is needed for core or if there is no longer an adequate economic benefit to continue the service. As an example; if the market matures and additional providers enter the business, margins could be squeezed to the point that Intermountain would no longer be inclined to participate in the market.

NWIGU COMMENTS

IGC appreciates NWIGU's support of the application. We are committed to ensuring that utility customers will not subsidize in any way non-utility customer's service. IGC has proposed a review of the revenue and costs associated with LNG sales by the Commission Staff through the PGA mechanism. Specific contracts and sales prices, however, would be proprietary information and subject to Staff review under "Trade Secrets" protection. Thus, any opportunity for "other interested parties review" would necessarily be limited to aggregated costs and revenues.

The Company also feels that it would be meaningless and inappropriate to perform the suggested cost of service study outside the context of a general rate case.

CONCLUSION

Based on the foregoing comments, Intermountain requests that the Commission approve its Case No. INT-G-13-02 as originally filed except where Company has agreed to Staff's recommendations relating to the deferral of 2.5¢ per gallon of LNG sold to be passed back to customers through the Company's PGA mechanism in lieu of an O&M credit.

Respectfully submitted this 27th day of March, 2013.

INTERMOUNTAIN GAS COMPANY

By:_____
Scott Madison
Executive Vice President – General Manager

CERTIFICATE OF MAILING

I HEREBY CERTIFY that on this 27th day of March, 2013, I served a copy of Intermountain Gas Company's Reply Comments relating to Case No. INT-G-13-02 upon:

Ed Finklea
Northwest Industrial Gas Users
326 Fifth Street
Lake Oswego, Oregon 97034

Chad Stokes
Cable Huston et al.
1001 SW Fifth Avenue, Suite 2000
Portland, Oregon 97204-1136

R. Scott Pasley
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Conley E. Ward, Jr.
Givens, Pursley, Webb & Huntley
277 N. 6th St., Suite 200
PO Box 2720
Boise, ID 83701

by depositing true copies thereof in the United States Mail, postage prepaid, in envelopes addressed to said persons at the above addresses.

Scott W. Madison
Executive Vice President - General Manager