NATURAL GAS

Consumption declines while prices increase in 2014

In Idaho, natural gas is supplied to customers by Avista Corporation, Intermountain Gas Company and Questar Gas. Idaho is fortunate to be located between two large natural gas storage basins: The Rocky Mountain Basin (Rockies) and the Western Canadian Sedimentary Basin (WCSB). These basins are connected through the Williams Northwest Pipeline and the TransCanada Gas Transmission Northwest pipelines allowing the utility companies serving Idaho to take advantage of capacity and pricing of both basins.

Individual Idaho Gas Utility Profiles

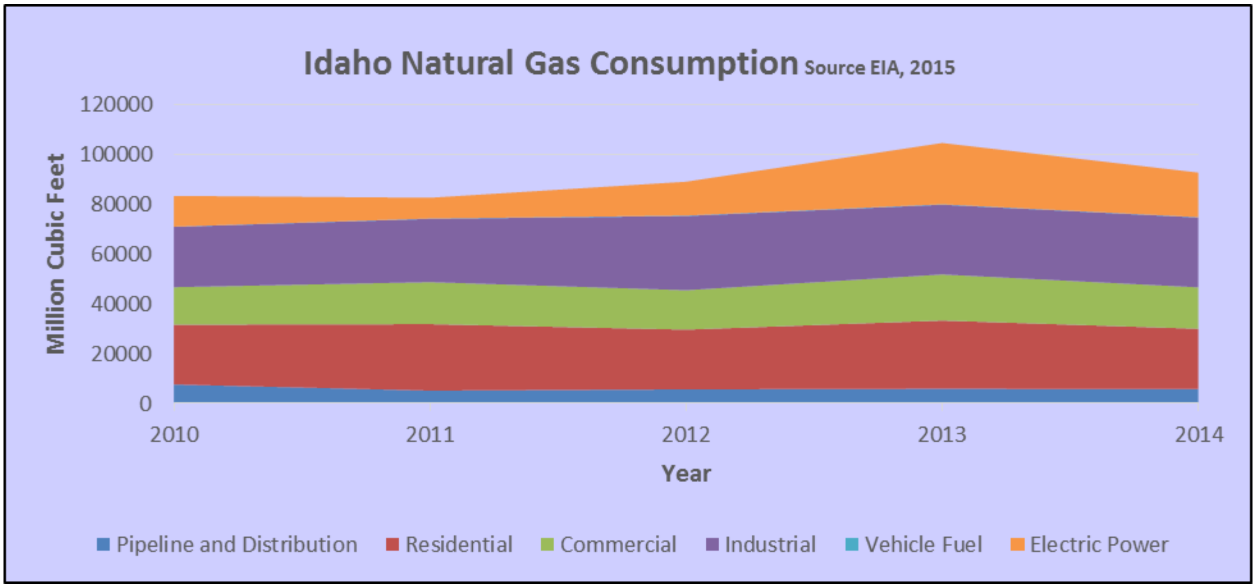
2014 Statistics	Total	Residential	Commercial	Industrial	Transportation[1]
Intermountain Gas					
Customers	**333,810**	**301,865**	**31,821**	**19**	**105**
% of Total	100%	90.43%	9.53%	0.01%	0.03%
Therms (millions)	589.6	203	104	5.7	276.9
% of Total	100%	34.43%	17.64%	0.97%	46.96%
Revenue (millions)	$251.20	$162.60	$76.50	$3.00	$9.10
% of Total	100%	64.73%	30.45%	1.19%	3.62%
Avista Corporation					
Customers	**78,052**	**69,309**	**8,635**	**101**	**7**
% of Total	100%	88.80%	11.06%	0.13%	0.01%
Therms (millions)	116.86	46.26	27.48	2.43	40.69
% of Total	100%	39.59%	23.52%	2.08%	34.82%
Revenue (millions)	$71.53	$46.55	$22.84	$1.67	$0.47
% of Total	100%	65.08%	31.93%	2.33%	0.66%
Questar Gas					
Customers	**2,098**	**1,858**	**240**	**0**	**0**
% of Total	100%	88.56%	11.44%	0%	0%
Therms (millions)	2.02	1.26	0.76	0	0
% of Total	100%	62.38%	37.62%	0%	0%
Revenue (millions)	$1.75	$1.16	$0.59	$0.00	$0.00
% of Total	100%	66.29%	33.71%	0%	0%

Consumption

Growth rates in residential and commercial segments were lower than forecasted for 2014 and are projected to decline in both 2015 and 2016.[2] In the residential space, customer additions are keeping pace with declines in per-customer use of natural gas. In 2014, industrial growth rates remained relatively flat and electricity generation demand declined but is driving overall load growth.

[1] Transportation is non-utility owned gas transported for another party under contractual agreement.

[2] EIA Short-Term Energy Outlook Sept. 9, 2015



Northwest Gas Association (NWGA) members are watching a number of demand drivers that have yet to be quantified, including:[3]

- The magnitude and nature of the use of natural gas for generating electricity.
- The possibility of new significant industrial loads.
- The regional growth potential for natural gas as a transportation fuel.
- The adequacy of natural gas infrastructure to support regional growth opportunities.
- The impact of future energy policies on demand, particularly GHG (greenhouse gas) legislation.

Prices

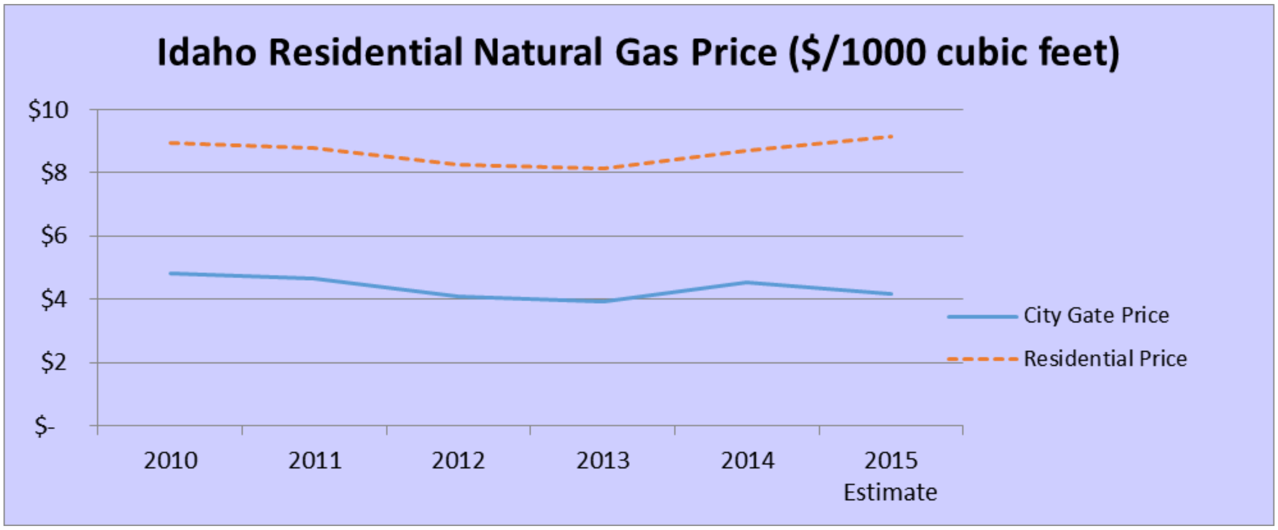
Natural gas spot prices are expected to decline in 2015 to an average of $3.16/Dth (dekatherm) at Henry Hub, which is one third lower than the 2014 average of $4.52/Dth at Henry Hub.[4]

Northwest Gas Association (NWGA) members are tracking a number of market dynamics that could influence future natural gas prices:[5]

- North American economic growth.
- The pace of adoption of natural gas for generation, industrial and transportation uses.
- Whether future regulations add to the cost of production or limit access to reserves.
- The effect of new and improved production technologies.
- The effect of infrastructure constraints on regional pricing.
- Benefits and costs of North American natural gas, such as LNG (Liquefied Natural Gas) exports to premium overseas markets.

[3] NWGA 2015 Gas Outlook

[4] EIA, Short-Term Energy Outlook, April 7, 2015.



Summary

Idaho residents, commercial and industrial users of natural gas continue to benefit from low natural gas prices and plentiful supply. Continued advancement in shale extraction and production techniques are transforming the industry and continue to exceed expectations. Existing natural gas providers' infrastructure is sufficient to meet current needs and forecasts. However, system capacity could be strained if load requirements exceed forecasts. Increased capacity could be required if sustained cold weather events occur, industrial and electricity generation demand accelerate above forecasts, and implementation of the EPA's Clean Power Plan (111[d]) stimulates increased use of natural gas.

-by Kevin Keyt, IPUC Staff Analyst

Commission accepts Avista Utilities' 20-year natural gas plan

Case No. AVU-G-14-03, Order No. 33196

Dec. 26, 2014 – The Commission accepted a plan by Avista Utilities to meet customer demand for natural gas over the next 20 years. The company's Integrated Resource Plan (IRP) is updated every two years.

However, the commission said neither Avista's IRP nor its 2015 Business Plan address when it might be cost-effective for Avista to resume offering incentives to customers to reduce natural gas consumption. Avista suspended its demand-side management (DSM) programs for natural gas customers in 2012 after natural gas prices dropped to the point that the DSM programs were no longer cost-effective. Still, Avista's 2014 IRP indicates a Conservation Potential Assessment for 228,000 therms of natural gas savings in 2015, increasing to 3.6 million therms by 2034.

Avista maintains its Conservation Potential Assessment uses "high-level assumptions" that may be overly optimistic and that the issue should be further explored in the company's 2015 Business Plan rather than in the context of its IRP. The commission directed Avista to file an addendum to its business plan within 60 days that analyzes the CPA results and addresses whether it might be cost-effective to resume DSM programs.

The commission commended the company for its efforts to make its IRP planning process more transparent and available to Avista's northern Idaho natural gas customers. The Technical Advisory Committee, which includes commission staff, peer utilities, customers and other stakeholders, conducted meetings in a number of locations more convenient for Idaho stakeholders. Avista also recorded a meeting and made it electronically available to customers.

Customer demand remains low, thus Avista does not anticipate a need to acquire additional natural gas resources beyond what it already provides. Demand is down due partly to the recession, while the availability of natural gas increases because of the abundant supply of shale gas. The company anticipates growth in customer demand of only 0.7% annually.

However, due to enough uncertainties regarding future natural gas supply and price, Avista's plan outlines a number of scenarios and how it would respond to each one. The uncertainties that could impact demand for natural gas include 1) the amount of liquefied natural gas (LNG) exports, 2) the market for natural gas vehicles and 3) the amount of increased natural gas that may be needed for electric generation.

Existing and new LNG facilities are looking to export low-cost North American gas to higher-priced Asian and European markets, the Avista IRP states. In Canada, 16 LNG export projects are in various stages of permitting and there are two proposed terminals in Oregon. "LNG exporting has the potential to alter the price, constrain existing pipeline networks, stimulate development of new pipeline resources, and change flows of natural gas across North America," the IRP states.

Avista claims it has a diversified portfolio of gas supply resources, including contracts to buy gas from several supply basins, stored gas and firm capacity rights on six pipelines.

The company's identifies a number of steps it will take in its "action plan," to address future concerns:

- Monitor demand for indications of deviations from expected growth and provide a report twice yearly to commission staff on forecasted customer growth and use per customer as compared to actual growth

- Continue to monitor supply-side resource trends including the availability and price of natural gas to the region, LNG exports, Canadian natural gas supply and consumption, and the availability of storage infrastructure.

- Meet regularly with commission staff to provide information on market activities and significant changes in the IRP's assumptions or natural gas procurement practices.

PUC sets lower depreciation rate for Intermountain Gas

Case No. INT-G-14-02, Order No. 33260

April 2, 2015 – The Commission approved a small reduction to Intermountain Gas Company's composite depreciation rate from 3.07% to 3.05%.

The company had originally requested an increase to 3.12%, but agreed with changes proposed by commission staff to slightly decrease the rate.

The commission did adopt the company's proposed increase to its total General Plant amortizations from $1.75 million to $2.6 million.

The changes will not impact rates for Intermountain Gas' 330,000 customers across southern Idaho.

Utilities are allowed a depreciation component in retail rates to help cover the costs to replace facilities. Intermountain Gas updates its depreciation rate every three years. It contracts with an outside vendor, AUS Consultants, to conduct the update study.

The AUS study determined Intermountain Gas is under-depreciating its assets. The study addressed, among other items, adjustments to the projected lives of Intermountain's electronic transmitters used to read meters, its distribution mains and service lines and improvements made to the company's Liquefied Natural Gas facility in Nampa.

Intermountain began using the electronic read transmitters (ERTs) in 2002. The units were expected to continue in service for 15 years. However, recent studies indicate that the devices will need to be replaced earlier than anticipated, resulting in a shortening of their remaining useful life. After discussion, commission staff and the company agreed to delay a change in the depreciation rate for the transmitters until after the company has replaced all ERTs. The resulting more precise expense can then be included in the next depreciation study.

Commission staff also made downward adjustments to the proposed depreciation rates for the company's distribution mains and for the equipment that regulates the pressure in the pipelines. The commission did not accept the company's proposed depreciation rate increase from 2% to 2.55% for the Nampa Liquefied Natural Gas facility.

Depreciation, as applied to Intermountain Gas' plant, means the loss in service value not restored by maintenance or covered by insurance, but incurred in connection with wear and tear, decay, inadequacy, obsolescence and new requirements from public authorities.

PUC accepts Intermountain Gas long-range plan

Case No. INT-G-15-01, Order No. 33314

June 11, 2015 – The Commission accepted Intermountain Gas' five-year plan to meet customer demand. The commission's acceptance of the Integrated Resource Plan (IRP), filed every two years, does not mean the commission endorses all the resource acquisitions planned or the company's preferences for future gas supply. Those issues are determined in separate cases or rate cases that address each matter separately. Rather, acceptance of the IRP means Intermountain Gas has met its obligation to conduct an ongoing public planning process and report that process to the commission.

Intermountain Gas delivers natural gas to 290,500 residential customers and 31,000 commercial customers across southern Idaho. It does not anticipate any peak-day delivery deficits in the regions it serves over the next five years. Some customers, like those in the Rexburg area, may require use of a portable liquefied natural gas facility to meet customer demand on peak-use days. A number of industrial customers are able to use other non-traditional sources on peak days, such as diesel/fuel oil, coal, wood chips and propane.

More than 149 miles of distribution and service lines were added during 2013 to accommodate new customer additions and maintain service.

The IRP forecasts a 2.32% rate of growth each year for the next five years in its total residential, commercial and industrial peak-day loads. In 2013, the company experienced a 1.8% growth rate in the number of residential and commercial customers from 2008.

In its review of the plan, the commission encouraged the company to include the costs of natural gas storage and distribution enhancements in its calculations to determine whether efficiency programs would be more cost-effective. The commission also directed the company to summarize the scope, duration and cost of Intermountain's research and development projects in its future IRPs. The commission further directed the company to provide more information on the level of participation in public meetings regarding the IRPThe Idaho Conservation League also filed comments in the case, stating the company under estimates future gas demand, does not indicate whether the company plans to augment its gas efficiency programs and does not state how the company advocates for building and appliance standards to increase efficiency.

Intermountain states that its forecast is sound and, if not, the company updates its forecast at least biennially. Gas efficiency programs have been temporarily suspended by both Avista Gas in northern Idaho and Intermountain Gas, with commission concurrence, because they are not cost-effective with the current low prices for natural gas. Regarding efficiency programs for buildings, the company stated that it regularly interacts with the state Division of Building Safety and is open to participation in the Idaho Building Code Collaborative to the extent that such participation is relevant to Intermountain's business and services.

Intermountain Gas is served by the Williams Northwest Pipeline that enters southeast Idaho from Wyoming. From that pipeline, Intermountain has built several laterals, the major ones being the Idaho Falls Lateral from Pocatello to St. Anthony, the Sun Valley lateral from Shoshone to Sun Valley, the Canyon County Lateral, the State Street Lateral in northwest Boise and the Central Ada Area Lateral.

The agricultural economy and the price of alternative fuels strongly influence industrial demand for natural gas. In 2013, industrial sales and transportation customers accounted for 44% of the throughput on Intermountain's system. Transportation customers are large industrial customers that use Intermountain Gas's distribution system to buy gas from Intermountain or other suppliers.

Natural gas rates to drop for Intermountain Gas customers

Case No. INT-G-15-02, Order No. 33386

September 30, 2015 – Rates for customers of Intermountain Gas Company will decrease an average 5.7% effective Oct. 1.

The Commission approved the company's annual Purchased Gas Cost Adjustment (PGA). Under the PGA, rates are adjusted up or down every Oct. 1 to account for that portion of gas supply expense that changes every year.

Lower wholesale prices for natural gas and a decrease in transportation costs billed to Intermountain by its supplier, Northwest Pipeline GP, contributed to this year's reduction.

The $15.3 million passed on to customers is about a 6.1% decrease to customers who use natural gas for space and water heating, a 3.56% decrease to those who use natural gas for space heating only and a 5.6% reduction for commercial customers. The PGA portion of customer rates will be reduced from the current 39.5 cents per therm to 32.8 cents per therm. With the approval, Intermountain's combined residential and commercial rates are 35% lower than in 2005.

Other factors contributing to the lower rate include increased natural gas production and Intermountain Gas' management of its storage and firm capacity rights on its various pipeline systems.

Commission considering Avista proposal to resume gas efficiency programs

Case No. AVU-G-15-03, Order No. 33422

November 23, 2015 – Avista Utilities, which serves about 78,000 natural gas customers in northern Idaho, is asking state regulators to resume its natural gas energy efficiency programs after they were suspended in 2012 because of low natural gas prices. At the publication of this report, the Commission had not yet issued a final order.

The programs offer rebates and other incentives to customers who install weatherization as well as high-efficiency natural gas appliances. The programs were suspended when natural gas costs dipped to about 50 percent lower than the expense the utility was avoiding with the programs in place.

If the Commission approves resumption of the programs, Avista would also re-institute its rider to fund the programs, which would be about 1.7% of a customer's billed rate. For a residential customer who uses the company average of 61 therms per month, the monthly increase would be about $1.11, effective Jan. 1, 2016.

Overall, natural gas rates just declined sharply with a 14.5% reduction in the company's annual Purchased Gas Cost Adjustment, the variable portion of gas rates adjusted every Nov. 1. The permanent portion of natural gas rates – the base rate – is expected to increase by 3.5% on Jan. 1 if the commission approves a negotiated settlement proposed by Avista and other parties.

In order for the Commission to approve resumption of the efficiency programs, the utility must demonstrate that the savings from the program are greater than the expense to customers. Avista estimates that the first year savings (2016-17) will be about 233,000 therms in its Idaho territory.