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# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF THE FILING BY AVISTA CORPORATION DBA AVISTA UTILITIES OF ITS 2003 NATURAL GAS INTEGRATED RESOURCE PLAN (IRP).** | **CASE NO. AVU-G-03-2**<br><br>**COMMENTS OF THE COMMISSION STAFF** |

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Filing, Notice of Comment Deadline issued on June 4, 2004, submits the following comments.

On December 23, 2003, Avista Corporation, dba Avista Utilities (Avista; Company) filed its year 2003 natural gas Integrated Resource Plan (IRP) with the Idaho Public Utilities Commission (Commission). Staff delayed comment pending completion of the State of Washington Benchmark case. Staff provides additional comments and recommendations concerning the Benchmark at the end of its comments.

The Company's filing complies with the Commission's direction in Order No. 25342, Case No. GNR-G-93-2 (reference PURPA Section 303(b)(3), Energy Policy Act of 1992). Pursuant to the Commission's Order, the Company is required to file its IRP every two years. Commission Order No. 25342, Case No. GNR-G-93-2 initiated Integrated Resource Plan (IRP) requirements for local gas distribution companies (LDC) in accordance with amended Section 303 of the

Federal Public Utility Regulatory Policy Act of 1978 (PURPA). In its order the Commission listed the elements that should be contained in the IRP. The following is a listing of these elements and policy requirements including Staff comments associated with each in regards to the 2003 IRP filed by Avista.

*01. Purpose and Process*
No Comments

*02. Definition.*
No Comments

*03. Elements of Plan. Each gas utility shall submit to the Commission on biennial basis an integrated resource plan that shall include:*

*a. A range of forecasts of future gas demand in firm and interruptible markets for each customer class for one, five, and twenty years using methods that examine the effect of economic forces on the consumption of gas and that address changes in the number, type and efficiency of gas end-uses.*

Staff believes the Company's IRP satisfies this requirement.

Appendix 'A' of Avista's IRP provides the Company's natural gas sales forecast. The Company's planning horizon appears to meet the planning time frame requirements. The Company provides detail on 1, 5, 10, 15 and 20 year plans.

The Company uses Global Insight, Inc. (formerly Data Resources, Inc.) research services for its overall economic forecast. The Company further enhances Global Insight's 2002 information with locally available housing and building growth information.

The forecast data is weather normalized using National Oceanic Atmospheric Administration's 30-year average weather data. The weather data is included via heating degree-days in the Company's SENDOUT model for overall system optimization and appears to be in accordance with industry standards.

*b. An assessment for each customer class of the technically feasible improvements in the efficient use of gas including load management, as well as the policies and programs needed to obtain the efficiency improvements.*

Staff believes the Company's IRP satisfies this requirement. There are significant improvements in the Company's Demand Side Management (DSM) program from the previous

IRP. On February 16, 2001 (O.N. 28646) the Commission approved the Company's requested .5% DSM tariff rider (Schedule 191). This funding mechanism provides approximately $0.3 million annually for the Company's Idaho gas DSM. The program provides the following two separate incentive structures. (See IRP filing page B-3, B-4).

**Standard Gas-Efficiency Measures**

| Customer Simple Payback | Customer Direct Incentive |
|---|---|
| 0 to 17 months | $0.00 per first year therm |
| 18 to 47 months | $2.00 per first year therm |
| 48 to 71 months | $2.50 per first year therm |
| 72 months or more | $3.00 per first year therm |

Subject to a maximum payment of 50% of the incremental cost

**New Technology Gas-Efficiency Measures**

| Customer Simple Payback | Customer Direct Incentive |
|---|---|
| 0 to 47 months | $2.50 per first year therm |
| 48 to 71 months | $3.00 per first year therm |
| 72 months or more | $3.50 per first year therm |

Subject to a maximum payment of 75% of the incremental cost

The Company's DSM program are overseen by a non-binding oversight organization, the External Energy Efficiency Board ("Triple-E" Board). This Board serves only in an advisory role and the Company maintains full responsibility for its DSM programs.

The Washington and Idaho gas DSM programs achieved 476,065 first year therm savings in 2001. However, the cost to achieve the savings, $1,383,268 or $2.906/therm exceeded the annual revenue generated by the rider (IRP B-5). The combined Washington and Idaho gas DSM rider balance as of the end of 2001 was a negative $596,296. In order to bring the total rider balance to zero, the Company's 2001 business plan limited gas and electric expenditures to 62% of the tariff rider revenue. That business plan anticipated that the combined total balance would zero out by the close of 2005.

Based on these results Staff believes that the Company is committed to pursuing DSM measures. Even though the first year cost has exceeded annual rider revenues, the long-term savings to the Company is estimated at over 2.5 million therms.

A detailed calculation of avoided costs for Avista is outlined in Appendix E of the IRP. The avoided costs from the Company's past four IRPs are summarized as follows:

| | 1995 | 1997 | 2000 | 2003 |
|---|---|---|---|---|
| Annual Supply Avoided: | | | | |
| Load Factor | 100% | 100% | 100% | 100% |
| Supply Cost per Therm | $ 0.165 | $ 0.124 | $ 0.258 | $ 0.327 |
| Transportation Component | $ 0.029 | $ 0.032 | $ 0.032 | $ 0.032 |
| Winter Supply Avoided: | | | | |
| Load Factor | 56% | 56% | 56% | 56% |
| Supply Cost per Therm | $ 0.195 | $ 0.124 | $ 0.284 | $ 0.336 |
| Transportation Component | $ 0.052 | $ 0.032 | $ 0.058 | $ 0.058 |
| Avoided Cost Results: | | | | |
| (30 years levelized per therm) | | | | |
| Nominal:(key for WA/ID DSM) | | | | |
| Annual | $ 0.338 | $ 0.225 | $ 0.501 | $ 0.473 |
| Winter | $ 0.397 | $ 0.269 | $ 0.579 | $ 0.537 |

c. *An analysis for each customer class of gas supply options, including: (1) a projection of spot market versus long-term purchases for both firm and interruptible markets; (2) an evaluation of the opportunities for using Company-owned or contracted storage or production; (3) an analysis of prospects for Company participation in a gas futures market; and (4) an assessment of opportunities for access to multiple pipeline suppliers or direct purchases from producers.*

Staff believes the Company's IRP satisfies this requirement.

(1) In IRP Appendix E the Company extensively uses its SENDOUT model program to provide an analysis and projection of available supply components over the Company's twenty-year planning horizon.

(2) The Company does not own any direct supplies of gas (i.e. wells). All gas is purchased from gas suppliers through interstate pipelines. The Company's SENDOUT model optimizes the use of its Jackson Prairie Underground Storage Facility and its Plymouth LNG station. The Company also explores other storage opportunities such as LNG facilities, propane-air and underground storage facilities in southeast Washington State. The study defines a need for additional design day transportation capacity for its northern service territory in 2007 and 2008 and 2010/11 in the southern division. The Company states that these facilities are not cost

effective at this time. Staff encourages the continued review of these facilities to optimize gas purchase options.

(3) On February 1, 2002 the Commission issued Order No. 28941 approving modifications of the natural gas benchmark mechanism. The modifications included a hedge purchase program. The Company's IRP indicates a continuation of the hedging program for a portion of the heating season.

(4) The Company evaluates resources from all supply basins and available storage resources. The Company continues to evaluate available resource options based on pipeline constraints and resource availability.

d. *A comparative evaluation of gas purchasing options and improvements in the efficient use of gas based on a consistent method for calculating cost-effectiveness.*

Staff believes the Company's IRP satisfies this requirement. Starting with the Company's 1995 IRP the Company has used two targeted avoided cost calculations, annual and winter. They use the same methodology in this filing. The Company also continues to use the SENDOUT planning model to assist in establishing the two avoided cost calculations.

e. *The integration of the demand forecast and resource evaluations into a long-range (e.g., twenty-year) integrated resource plan describing the strategies designed to meet current and future needs at the lowest cost to the utility and its ratepayers.*

Staff believes the Company's IRP satisfies this requirement.

In Appendix E the Company provides an extensive review of supply resources. It includes numerous SENDOUT Model outputs for various supply resources throughout the planning horizon. The Model takes into account input data from demand forecasts for a given area by customer type, weather pattern information, transportation data including distribution network and the physical movement of gas and pipeline costs. It takes into account supply options consisting of gas contract prices, minimum and maximum take requirements, gas storage options, and capacity release data. The Model output is used extensively by the Company for planning purposes. The use of "what-if" scenarios within the Model allows the Company to make educated economic supply decisions across the planning horizon and demand forecasts.

*f. A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the integrated resource plan.*

Staff believes the Company's IRP satisfies this requirement.

The 2003 action plan (Appendix 'G') includes the following six areas.

(1) Sales Forecasting: Avista will continue to track customer price elasticity over the action plan period.

(2) Modeling / Daily Forecasting: Avista will continue to use its SENDOUT ® Gas Planning and Nostradamus ® Forecasting Models.

(3) Supply / Capacity: Avista will continue to analyze the need for additional interstate pipeline capacity and evaluate the renewal of transportation contracts as they expire. Avista also proposes to continue to monitor Avista Energy as part of the Benchmarking agreement.

This agreement will no longer exist as of April 2005 in Idaho and therefore additional action is necessary. Staff has provided additional comments under Additional General Comments.

(4) Demand Side Management: The Company proposes to work toward achieving available cost-effective gas-efficiency opportunities while simultaneously bringing the tariff rider balance back to zero in a timely manner.

(5) Distribution Planning: Avista will continue to use the Stoner Workstation and its GIS system for distribution planning activities.

(6) Public Involvement: Avista Utilities will continue to participate in the energy planning efforts of other organizations in the Northwest as well as any national studies that may occur. The Company will also look to other utilities in the northwest to find better ways to get active, meaningful participation in its Technical Advisory Committee (TAC).

04. *Relationship Between Plans. All plans following the initial integrated resource plan shall include a progress report that relates the new plan to the previously filed plan.*

Staff believes the Company's IRP satisfies this requirement.

In Appendix 'G' the Company provides an action plan review and reports on the outcome of the previous action plan. In general the Company has followed the previous action plan.

The Company has provided comparison between previous IRPs throughout the text. The Company states improvements in the degree day calculations and evaluation of customer price elasticity with the addition of Nostradamus® forecasting software. The Company DSM goals were greatly exceeded. The External Energy Efficiency board is in place and continues to provide program and evaluation advice on cost effective DSM opportunities. The Company is also continuing with its Stoner Workstation modeling for distribution planning.

*05. Plans to Be Considered in Rate Cases.*

Concurrent with this filing the Company has filed a natural gas rate case AVU-G-04-1. Staff is currently evaluating the merits of the rate case and the IRP implications.

*06. Public Participation. In formulating its plan, the gas utility must provide an opportunity for public participation and comment and must provide methods that will be available to the public of validating predicted performance.*

Staff believes the Company's IRP satisfies this requirement.

The public participation element is outlined in Appendix 'F'. The Company held two public Technical Advisory Committee (TAC) Meetings to review different phases of the plan during 2002. Meetings were held on September 24 and December 4, 2002 in Spokane, Washington.

*07. Legal Effect of Plan.*

No Comments on this Section.

**ADDITIONAL GENERAL COMMENTS**

**Benchmark**

The Natural Gas Benchmark Mechanism is a tariffed program where Avista Energy manages all of Avista Utilities natural gas marketing and storage facilities. The program establishes the cost of natural gas for the states of Washington, Idaho and Oregon. It prices natural gas at the first of the month price based on an artificial weighting of the three supply basins serving the northwest regardless of actual purchase price or delivery location. The Benchmark

Mechanism also includes storage management, a hedging program and sharing of capacity releases between Avista Energy and Avista Utilities for all three states.

On February 13, 2004 the Washington Utilities and Transportation Commission (WUTC) in Docket No. UG-021584 found that Avista's Benchmark Mechanism proposal had not provided adequate safeguards in affiliate transactions between Avista and Avista Energy nor were there significant measurable benefits to ratepayers. The WUTC rejected Avista's proposed modifications to the natural gas Benchmark Mechanism and extended the current mechanism for 60 days for Avista to submit a transition plan. On April 2, 2004 the WUTC extended the expiration of the Benchmark Mechanism to April 30, 2004 and approved Avista's plan for transitioning from purchasing natural gas through Avista Energy and the Benchmark Program to the direct purchase of natural gas by Avista Utilities. The transition plan calls for Avista Utilities to contract with Avista Energy to purchase natural gas based on Avista Utilities purchase decisions until March 2005. Avista Utilities proposes to acquire and train additional personnel and return to internally purchasing natural gas for all of its natural gas customers in Oregon and Idaho effective April 1, 2005.

Avista's 2003 IRP only briefly mentions the pending actions of the Washington Commission in Appendix G, under evaluation of the previous plan, supply/capacity. Staff believes this is a significant event that should be addressed greater in the IRP or in a supplemental filing associated with the IRP. Staff admits that the change should not affect the overall demand for natural gas. However, the change will affect the way the Company buys natural gas. Changes will also occur in personnel costs as well as in transportation and storage planning. Furthermore, the overall strategy for hedge purchasing and storage management is subject to change, because it is an integral part of the current Benchmark Mechanism.

Staff believes that Idaho customers have benefited from some of the Benchmark components. Staff is concerned that with the loss of the Benchmark Mechanism, beneficial programs may be lost and additional costs may be shifted to Idaho. Staff recommends that the Company be directed to provide Staff copies of all Benchmark transition documents submitted in other states.

Pursuant to Commission Order in Case No. AVU-G-01-3, the Company is to file an analysis of the Benchmark program detailing the costs and benefits to customers, to the Company and to Avista Energy seven (7) months (on or before August 31, 2004) prior to the contract's termination on March 31, 2005. Order No. 28941 at 7. Staff will review the required filing and continue to monitor the Company's transition actions closely.

## SUMMARY & RECOMMENDATION

The Avista 2003 natural gas Integrated Resource Plan provides the Company's load growth and pricing forecasts. It provides insight into the Company's use of integrated resources by analyzing supply alternatives, including spot, firm and interruptible markets. The IRP further includes the use of storage futures options, multiple pipeline purchases, and demand side management to provide an integrated look at the Company's natural gas resources.

Staff believes that Avista's 2003 Natural Gas IRP satisfies the technical requirements of Commission Order No. 25342. Staff recommends that the Company's filing be acknowledged and accepted. Staff's recommendation should not be interpreted as approval, or as a judgment of prudence of the IRP or the prudence of following or not following the plan.

Staff anticipates a significant change in the Company's gas purchasing strategy. The elimination of the Benchmark has the potential for significant ramifications to Idaho. Staff recommends that Avista be directed to provide Staff copies of all Benchmark transition documents submitted in the Company's other jurisdictional states.

Dated at Boise, Idaho, this 24th day of June 2003.

Scott Woodbury
Deputy Attorney General

Technical Staff: Michael Fuss

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# CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 24TH DAY OF JUNE 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-03-2, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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