DECISION MEMORANDUM

TO: **COMMISSIONER KEMPTON**
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **DON HOWELL**
DEPUTY ATTORNEY GENERAL

DATE: **JANUARY 21, 2010**

SUBJECT: **AVISTA'S 2009 INTEGRATED RESOURCE PLAN (IRP),**
CASE NO. AVU-G-09-06

On December 30, 2009, Avista Corporation dba Avista Utilities filed its 2009 Integrated Resource Plan (IRP) with the Commission. In Order No. 22290 issued in January 1989, the Commission required electric and natural gas utilities to file a biennial IRP describing the utility's plans to meet the future energy needs of its customers. Typically, an IRP analyzes an energy company's changes in customer base, load growth, supply-side resources, demand-side management (DSM) and various risks facing the Company. Additionally, Avista's IRP and its related appendices contain information regarding available resource options, planning forecasts, potential portfolios, a 10-year resource plan, and a near-term (2010-2011) action plan.

Avista serves approximately 315,000 natural gas customers in three states including about 73,000 natural gas customers in northern Idaho. In Avista's northern operating division (eastern Washington and northern Idaho), it serves roughly 218,000 natural gas customers. The Company's customer base is generally comprised of 94% residential customers, 5% commercial customers, and 1% industrial customers. IRP at p. 2.3.

IRP FILING

Avista's 2009 IRP was developed with the participation of its Technical Advisory Committee (TAC). Members of the TAC include customers, Commission Staff, consumer advocates, academics, utility peers, governmental agencies, and other interested parties. Avista sponsored four TAC meetings to assist in the preparation of the IRP. The Company states that this IRP was developed during the last two years when the United States and other countries

were experiencing a financial and credit crisis. These financial uncertainties prompted the Company to "consider a wider range of scenarios to evaluate and prepare for a broad spectrum of potential outcome" in this IRP. IRP at p. 1.1.

The IRP is a comprehensive long-range planning tool designed to identify and evaluate forecasted natural gas requirements. The purpose of the IRP is to plan for the acquisition of the most cost-effective, risk-adjusted portfolio of existing and future resources, and to meet the daily and peak-day demand and delivery requirements over the next 20-year period. IRP at p. 2.4. Avista's IRP has five parts: demand forecast; natural gas price forecast; supply resources; demand-side management; resource needs; and the 2010-2011 near-term action plan.

A. Demand

The Company's approach to demand forecasting focuses on customer growth and consumption per customer as the basic components of demand. The Company considers various factors that influence these components including population, employment trends, age and income demographics, construction trends, conservation technologies, new uses (e.g., natural gas vehicles), and consumption per customer. In the demand forecast, Avista lays out six different scenarios including its "expected case" scenario. In the expected case, Avista anticipates an average growth in daily demand of 1.1% during the period 2010 to 2028-2029 (net of projected conservation savings from DSM programs). IRP at p. 1.3. During the same timeframe, the Company estimates that its peak-day demand will increase by a compound rate of 1.3%. *Id.*

B. Gas Prices

The Company maintains that natural gas prices are a fundamental component of Integrated Resource Planning. Although the Company does not believe that it can accurately predict future prices over the 20-year horizon, it has developed a high, medium and low price forecast prices for natural gas. Avista anticipates that issues of economic recovery, expectations of prolific shale gas production, and increased natural gas-fired power generation make pricing forecast difficult.

C. Supply Resources

Avista has a diverse portfolio of natural gas supply resources, including owned and contract storage, firm capacity rights on six pipelines and commodity purchase contracts from several different supply basins. The Company also evaluated resource additions from

incremental pipeline transportation, storage options, distribution enhancements, and various forms of liquefied natural gas storage or service. Matching its resource supply scenario with its expected case demand scenario, the Company forecasts that its Idaho/Washington service territory would experience a supply deficiency in 2023. IRP at p. 1.6. The graph of the estimated shortages is almost flat which leads the Company to conclude that its existing resources will be sufficient for quite some time to meet demand. "However, if demand growth accelerates, the steep demand curve could quickly accelerate resource shortages by several years." *Id.* at 1.8. Given the estimated deficiency in 2023, the Company plans to meet the projected shortages through DSM conservation, incremental transportation resources from existing pipeline and supply basin to address the shortages.

D. 2010-2011 Action Plan

The Company's IRP identifies and establishes a near-term action plan that will steer the Company toward the risk-adjusted, least-cost method of providing service to its natural gas customers. Included in this action plan are efforts to improve computer modeling, evaluate planning standards, and uses various risk analyses. Key components of the action plan include:

- Monitor actual demand and respond aggressively when growth exceeds the Company's forecast demand.

- Research and refine the evaluation of resource alternatives including: implementation risk factors and timelines, updated cost estimates, feasibility assessments, and target options of the service territory with near-term unserved demand exposure.

- Analyze per customer data and DSM program results for indications of price elasticity response trends that may be influenced by evolving economic conditions. Determine if the American Gas Association will update its analytical work or consider hiring outside experts in price elasticity on a regional basis.

- Continue pursuit of cost-effective demand-side solutions to reduce demand. In Washington and Idaho, conservation measures are targeted to reduce demand by 2.193 million therms in 2010. This goal represents an increase of 25% in Washington/Idaho from the 2007 IRP.

- Perform an updated assessment of technical and achievable potential for conservation in the Company's service territory prior to the 2011 IRP.

- Continue to monitor issues of diminishing Canadian natural gas import and look for signals that indicate increased risk of disrupted or dwindling supply from Canada.

- Explore and evaluate alternatives and additional forecasting methodologies for potential inclusion in the next IRP.

STAFF RECOMMENDATION

Staff recommends that the Commission issue a Notice of Filing and request public comment on the IRP. Staff recommends that public comments on Avista's IRP be due after a 45 to 60-day comment period.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Filing and process this matter under Modified Procedure? Does the Commission wish to use a 45/60-day comment period?

Don Howell
Deputy Attorney General

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