BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN RE THE FILING OF AVISTA CORPORATION DBA AVISTA UTILITIES' 2012 NATURAL GAS INTEGRATED RESOURCE PLAN (IRP)	**CASE NO. AVU-G-12-08**
	ACCEPTANCE OF FILING
	ORDER NO. 32698

On August 31, 2012, Avista Corporation dba Avista Utilities filed its 2012 Natural Gas Integrated Resource Plan (IRP). On October 2, 2012, the Commission issued a Notice of Filing and Notice of Modified Procedure that sought comments on the IRP. *See* Order No. 32655. Commission Staff submitted the only comments in the case. Staff recommended that the Commission acknowledge and accept the IRP for filing.

We have reviewed the record, including the IRP and Staff's comments. With this Order, we acknowledge Avista's 2012 natural gas IRP and accept it for filing.

BACKROUND

A natural gas IRP describes a company's plans to meet its customers' future natural gas needs. In Order No. 25342, the Commission adopted IRP requirements for local gas distribution companies in response to amended Section 303 of the Public Utility Regulatory Policies Act of 1978 (PURPA). In Order No. 27024, the Commission shortened the required planning horizon from 20 years to 5 years. Order No. 27098 removed any requirement that IRPs formally evaluate potential demand-side management (DSM) programs, and instead directed the companies to explain whether cost-effective DSM opportunities exist. In summary, these three Orders direct gas utilities to file biennial IRPs that include:

1. A forecast of future gas demand for each customer class, which includes the number, type, and efficiency of gas end-users as well as effects from economic forces on gas consumption;

2. An analysis of gas supply options for each customer class, which includes a projection of spot market versus long-term purchases for both firm and interruptible markets, an evaluation of the opportunities for using company-owned or contracted storage or production, an analysis of prospects for company participation in a gas futures market, and an

assessment of opportunities for access to multiple pipeline suppliers or direct purchases from producers;

3. A comparative evaluation of gas purchasing options and improvements in the efficient use of gas based on a consistent method for calculating cost-effectiveness, which considers the total costs of each resource including externalities;

4. An explanation of whether or not there are cost-effective demand-side management (DSM) opportunities;

5. The integration of the demand forecast and resource evaluations into at least a five-year integrated resource plan describing the strategies designed to meet current and future needs at the lowest cost to the utility and its ratepayers;

6. A short-term action plan;

7. A progress report that relates the new plan to the previously filed plan; and

8. Public participation.

AVISTA'S 2012 IRP

Avista provides natural gas service to 74,800 customers in northern Idaho, and to about 243,500 customers in Washington and Oregon. The Company files a natural gas IRP every two years.[1]

Avista's 2012 natural gas IRP consists of two spiral-bound manuals, including appendices. The IRP contains an Executive Summary, and chapters on Demand Forecasts; Demand-Side Resources; Supply-Side Resources; the Company's Integrated Resource Portfolio; Alternate Scenarios, Portfolios, and Stochastic Analysis; Distribution Planning; and the Company's Action Plan. IRP, Ch. 1-10. The following summary comes from the Executive Summary of the IRP. Further detail may be obtained in the IRP's remaining chapters and appendices.

[1] Per Commission Order No. 32233, Avista must file its IRP by August 31 of every even-numbered year.

Avista says its IRP identifies a strategic natural gas resource portfolio that meets expected customer demand requirements over the next 20 years. The IRP involves input from the Company's Technical Advisory Committee (TAC), which includes Commission Staff, peer utilities, customers and other stakeholders. Topics discussed with the TAC include natural gas demand forecasts, demand-side management (DSM), supply-side resources, computer modeling tools and distribution planning. The Company says the end result is an integrated resource portfolio designed to serve customers' natural gas needs well into the future while balancing cost and risk. IRP at 1.

Avista discusses the IRP planning environment by noting that shale gas has changed the landscape for North American supply and turned the price of natural gas on its head. The Company says a supply glut exists that has driven prices to lows not seen in the last decade. The Company hopes low-cost natural gas will continue to be available for many years, but it continues to perform "what if" analyses in order to cover the broad range of possibilities. *Id.* at 1.

Avista discusses the Company's demand forecasts. The Company says it forecasts a 1.1% annual, average growth rate (net of projected demand-side management (DSM) program savings) of 1.1%, with average day, system-wide core demand increasing from 96,160 dekatherms per day (Dth/day) in 2012 to 117,660 Dth/day in 2031. The Company forecasts that coincidental peak day, system-wide core demand will increase from a peak of 365,720 Dth/day in 2013 to 474,670 Dth/day in 2031. Forecasted non-coincidental peak day demand peaks at 341,850 Dth/day in 2012 and increases to 440,630 Dth/day in 2031, for a 1.3% compounded growth rate in peak day requirements (when net of projected DSM savings). IRP at 1-1.3.

Avista presents its natural gas price forecasts. The Company says gas prices are a significant part of the total cost of a resource option, which affects the avoided cost threshold for determining cost-effectiveness of conservation measures and how customers consume natural gas. The Company says that based on the costs and volumes of produced shale gas, there appears to be a consensus that production costs will remain low for quite some time. The Company's IRP sets forth high, medium and low price forecasts in an effort to represent a reasonable range of pricing possibilities over the next 20 years. The Company notes that it used an expected elasticity response factor to model how customers' consumption of natural gas will respond to price changes, and that it will monitor its assumptions over the IRP cycle and adjust them as needed. IRP at 1.4-1.5.

Avista discusses existing and potential natural gas supply resources. The Company says 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 also notes that during the IRP process, it determined that current avoided costs rendered Idaho natural gas DSM programs cost-ineffective. The Company thus asked the Commission to suspend those programs. IRP at 1.5. The Commission subsequently authorized Avista to suspend its Idaho natural gas DSM programs. *See* Order No. 32650, issued September 25, 2012, in Case Nos. AVU-G-12-03 and AVU-G-12-06.

Avista discusses projected resource needs. The Company uses an average case demand scenario and existing supply resources scenario to determine that it will not be resource deficient during the 20-year planning horizon. Using the expected case demand scenario and the existing resources supply scenario, the Company determined that peak day demand will not be fully served in the Washington/Idaho service territory until 2030 and that is ample time to carefully monitor, plan and take action on potential resource additions. IRP at 1.6-1.9.

Avista discusses resource selections. The Company uses computer modeling to determine the best cost/risk resource portfolio to meet any identified resource shortages over the 20-year planning horizon. It notes that after DSM savings, the computer model generally prefers that the Company resolve resource shortages by acquiring incremental transportation resources from existing pipelines and supply basins. *Id.* at 1.9–1.11. The IRP describes several alternate demand scenarios that the Company considered during the planning process. *Id.* at 1.11.

Avista says it is satisfied with the planning, analysis, and conclusions reached in the IRP. But Avista's IRP nevertheless recognizes and discusses that wide spread uncertainty exists requiring diligent monitoring of issues and challenges including what the Company describes as: Continued Economic Uncertainty; Five Dollar Gas Forever; Exporting LNG; and Natural Gas Vehicles. *Id.* at 1.12-1.13.

Avista's IRP contains a 2013-2014 Action Plan outlining activities identified by the IRP team with input from company management and TAC members. The Company says the Action Plan is designed to position Avista to provide the best cost/risk resource portfolio and to support and improve IRP planning. Avista says key ongoing components of the Action Plan include:

- Monitoring actual demand for indications of growth exceeding our forecast to respond aggressively to address potential accelerated resource deficiencies arising from exposure to "flat demand" risk. This will include providing Commission Staff with IRP demand forecast-to-actual variance analysis on customer growth and use per customer. This information will be provided in Avista's updates to each Commission Staff at least bi-annually;

- Pursuing the possibility of a regional elasticity study through the Northwest Gas Association or possibly the American Gas Association;

- Assessing potential demand impact from natural gas/compressed natural gas vehicles and other new uses of natural gas to Avista;

- Continuing to monitor supply resource trends including the availability and price of natural gas to the region, exporting liquid natural gas, Canadian natural gas supply availability and interprovincial consumption, as well as pipeline and storage infrastructure availability;

- Monitoring availability of current resource options and assessing new resource lead time requirements relative to when resources are needed to preserve flexibility; and

- Regularly meeting with Commission Staff members to provide information on market activities and significant changes in assumptions and/or status of Avista activities related to the IRP or natural gas procurement practices.

Id. at 1.13-1.14.

STAFF COMMENTS

Staff thoroughly reviewed Avista's 2012 natural gas IRP. Based on that review, Staff believes that the IRP generally complies with Order Nos. 25342, 27024, and 27098, and recommended the Commission accept the IRP for filing. Staff also suggested some potential improvements to Avista's IRP process.

First, Staff noted that Avista's IRP does not include an easily identifiable *progress report* that relates the new plan to the previously filed plan. The IRP does include some references to how it relates to the 2010 IRP. But these references are spread throughout the IRP and not summarized in one location. Still, in Appendix 2.2, Avista suggests it has satisfied the progress report requirement by noting that it: "strives to meet at least bi-annually with Staff and/or Commissioners to discuss the state of the market, procurement planning practices, and any other issues that may impact resource needs or other analysis within the IRP." While Avista may strive to have such meetings, Staff believes a more effective way to meet the progress report requirement is for the Company to devote an IRP chapter to summarizing and explaining the changes between the current plan and the prior plan. This would allow stakeholders to easily understand how and why Avista's long-term plan changes over time.

Second, Staff believes there may have been some inconsistencies between how the IRP describes certain statistical models used in forecasting demand and how Avista implements those models. Staff says these inconsistencies do not significantly impact Avista's analysis, but Staff would still like to discuss these issues with Avista before the next IRP.

Third, Staff noted that Avista held its four TAC meetings at the Portland airport, and that Idaho customers were not specifically represented at those meetings. Staff recommended that Avista conduct future public outreach meetings in locations convenient for Idaho customers.

DISCUSSION

The Commission has reviewed Avista's IRP and Staff's comments. We find that the Company's IRP generally contains the necessary information and is in the appropriate format as directed by Order Nos. 25342, 27024 and 27098, and Section 303(b)(3) of PURPA. We thus acknowledge the Company's 2012 natural gas IRP and accept it for filing. Our acceptance of the IRP should not be interpreted as an endorsement of, or judgment of prudence as to any particular element of the plan, nor does it constitute approval of any resource acquisition or proposed action contained in the plan. We appreciate the Company's efforts and hope that it found the IRP process to be operationally beneficial.

We also appreciate Staff's review of the IRP and recommendations for improving it. We encourage the Company to work with Staff to resolve any perceived inconsistencies about statistical modeling. We also expect the Company to ensure that the next IRP includes a more reader-friendly progress report, and to hold a TAC or other public outreach meeting in an area that is convenient to Idaho customers.

O R D E R

IT IS ORDERED that Avista's 2012 natural gas IRP is acknowledged and accepted for filing.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 18th day of December 2012.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:AVU-G-12-08_kk2