DECISION MEMORANDUM

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FROM: **LISA NORDSTROM**

DATE: **AUGUST 21, 2002**

RE: **IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S 2002 INTEGRATED RESOURCE PLAN. CASE NO. INT-G-02-2.**

On April 19, 2002, Intermountain Gas Company (IGC; Company) submitted its 2002 Integrated Resource Plan (IRP) with the Idaho Public Utilities Commission (Commission). The Company's filing complies with the Commission's direction in Order No. 24342, Case No. GNR-G-93-2 (reference PURPA § 303(b)(3), Energy Policy Act of 1992). On May 30, 2002, the Commission issued a Notice of Application and Modified Procedure and established a written comment deadline. Order No. 29039. The Northwest Industrial Gas Users and Commission Staff were the only parties to file comments, to which Intermountain Gas responded on August 20, 2002.

In its prior Order in Case No. GNR-G-93-2, the Commission adopted the following statement of Commission policy regarding PURPA § 303(b)(3) and integrated resource planning for gas utilities:

POLICIES ADDRESSING INTEGRATED RESOURCE PLANNING.

01. Purpose and Process. Each gas utility regulated by the Idaho Public Utilities Commission with retail sales of more than 10,000,000,000 cubic feet in a calendar year (except gas utilities doing business in Idaho that are regulated by contract with a regulatory commission of another State) has the responsibility to meet system demand at least cost to the utility and its ratepayers. Therefore, an integrated resource plan shall be developed by each gas utility subject to this rule.

02. Definition. Integrated resource planning. Integrated resource planning means planning by the use of any standard, regulation, practice, or policy to undertake a systematic comparison between demand-side management measures and the supply of gas by a gas utility to minimize life-cycle costs of adequate and reliable utility services to gas customers. Integrated resource planning shall take into account necessary features for system operation such as diversity, reliability, dispatchability, and other factors of risk and shall treat demand and supply to gas consumers on a consistent and integrated basis.

03. Elements of Plan. Each gas utility shall submit to the Commission on a 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.

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.

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.

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.

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.

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.

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.

05. Plans to Be Considered in Rate Cases. The integrated resource plan will be considered with other available information to evaluate the performance of the utility in rate proceedings before the Commission.

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.

07. Legal Effect of Plan. The plan constitutes the base line against which the utility's performance will ordinarily be measured. The requirement for implementation of a plan does not mean that the plan must be followed without deviation. The requirement of implementation of a plan means that a gas utility, having made an integrated resource plan to provide adequate and reliable service to its gas customers at the lowest system cost, may and should deviate from that plan when presented with responsible, reliable opportunities to further lower its planned system cost not anticipated or identified in existing or earlier plans and not undermining the utility's reliability. In order to encourage prudent planning and prudent deviation from past planning when presented with opportunities for improving upon a plan, a gas utility's plan must be on file with the Commission and available for public inspection. But the filing of a plan does not constitute approval or disapproval of the plan having the force and effect of law, and deviation from the plan would not constitute violation of the Commission's Orders or rules. The prudence of a utility's plan and the utility's prudence in following or not following a plan are matters that may be considered in a general rate proceeding or other proceedings in which those issues have been noticed.

Order No. 24342. The Commission subsequently modified the requirements for Natural Gas Integrated Resource Plans in 1997 to shorten the planning horizon to five years to match the Company's planning horizon and available market products. Order No. 27024. The Commission also eliminated the requirement that gas IRPs include formal evaluations of costs and benefits of potential DSM programs pursuant to Case No. GNR-G-93-2, Order No. 24981. Order No. 27098.

Instead, the Commission found that "a general explanation with each IRP filing of whether there are cost effective DSM opportunities will be sufficient." *Id.*

THE INTEGRATED RESOURCE PLAN

According to the IRP's Executive Summary, the IRP is meant to describe the currently anticipated conditions over the five-year planning horizon, the anticipated resource selections and the process for making those resource decisions. IRP at 1. IGC estimates that its average increase in residential and commercial customers between the first quarters of fiscal year 2001 and 2002 to be 5%. *Id.* During fiscal year 2001, 50% of the throughput on IGC's system was attributable to industrial sales and transportation. *Id.*

Peak Day Load Growth. IGC developed peak day sendout studies and load duration curves under design weather conditions to determine the magnitude and timing of future deficiencies in firm peak day delivery capability. Residential, commercial and industrial peak day sendout was matched against available resources to determine which combination of new resources would be needed to meet IGC's future peak day delivery requirements at the best possible cost. *Id.* at 2. Residential, commercial and industrial peak day load growth on IGC's system is forecasted over the five-year period to grow at an average annual rate of 4%.

Regional Studies. Certain geographic regions within IGC's service territory were analyzed based upon the anticipated or known need for distribution system upgrades within each specific region. *Id.* at 4.

The Idaho Falls Lateral Region serves a number of cities between Pocatello north to St. Anthony. The residential, commercial and industrial load served off this region represents approximately 14% of the total Company customers and 18% of the Company's total winter sendout during the winter of 2001-2002. *Id.* IGC hopes to work with industrial customers in this region who use alternative fuels to mitigate small, short duration peak day distribution delivery deficits. However, the projected delivery deficits are of such magnitude that "looping" of the existing system is warranted, adding the necessary firm delivery capacity to that area. *Id.*

The Sun Valley Lateral Region represents approximately 4% of the total Company customers and 3% of the Company's total winter sendout during the winter of 2001-2002. *Id.* at 5. When forecasted peak day sendout in this region is matched against the existing peak day distribution capacity (120,000 therms), a peak day delivery deficit occurs during 2003 and increases

thereafter. *Id.* Growth along the Sun Valley Lateral Region warrants an upgrade to the existing pipeline system since its limited industrial load does not currently have the capability to switch to alternative fuels as a means of mitigating peak day sendout. *Id.* at 6.

The Canyon County Region represented approximately 12% of the total Company customers and 14% of the Company's total winter sendout during the winter of 2001-2002. *Id.* When forecasted peak day sendout in this region is matched against the existing peak day distribution capacity (600,000 therms), a peak day delivery deficit occurs during 2006 and increases thereafter. *Id.* This region's diverse industrial customer base does not currently have the capability to switch to alternative fuels as a means of mitigating peak day sendout and IGC is currently exploring optional means of enhancing this region's distribution capability. *Id.* at 7. IGC is also awaiting the outcome of a planned natural gas fired electric generation plant in the Canyon County Region as the construction of this facility can potentially provide synergies to the design of IGC's distribution facilities in that region. *Id.*

NORTHWEST INDUSTRIAL GAS USERS' COMMENTS

On July 31, 2002, the Northwest Industrial Gas Users (NWIGU) filed comments commending Intermountain Gas' efforts to enhance its Supervisory Control and Data Acquisition (SCADA) system. NWIGU Comments at 2. The NWIGU indicated that Intermountain is currently investigating technology enhancements that would allow industrial customers to securely access real-time natural gas usage data via the Internet. They believe that this information will lead to more efficient use of natural gas and enhance price signals to customers that purchase gas on the open market. The NWIGU urged the Commission to approve the proposed IRP, and in particular, the efficiency opportunities provided by real-time industrial usage information. *Id.* at 3.

STAFF COMMENTS

In comments filed on August 2, 2002, Staff indicated that Intermountain's 2002 IRP minimally satisfies the technical requirements of Commission Order No. 25342 as modified by Order Nos. 27024 and 27098, and recommended acceptance for filing. Staff further stated that its recommendation should not be interpreted as approval of the plan, or as a judgment of the prudence of any transactions undertaken as part of the plan. Staff Comments at 7.

Staff reviewed the Company's forecasted growth projections and found them to be in the range of reasonableness, even though the Company's conversion rate appeared to be somewhat

optimistic. *Id.* at 3. While Staff believes the four energy efficiency programs mentioned in the IRP may be well intentioned, Staff noted the amount of energy efficiency improvement achieved or the extent of Intermountain's participation therein appeared to be somewhat limited. *Id.* Staff expressed concern that the IGC High Efficiency Gas Equipment Finance Program does not require any minimum efficiencies and that Intermountain's name is absent from the list of partners and participants on the "Rebuild Idaho" program's website. Although Staff verified the Company's participation in the Gas Technology Institute (GTI), Staff was unable to find any additional GTI funding by Intermountain other than that directly collected from customers and passed through to GTI. Staff further indicated that the IRP does not assess technically feasible improvements by customer class nor does it evaluate the limited programs that are provided.

Although the Company's resource optimization spreadsheet model appears to properly evaluate the Company's existing resources, the IRP does not include an extensive analysis for alternative supply basins, contract considerations, or market available instruments. *Id.* at 5. While Staff acknowledges that the shortened five-year planning horizon will skew resource decisions toward the existing long-term contracts, Staff does not believe the allowance of a shorter planning horizon should not be used as an excuse for the Company to avoid exploring market available alternatives. *Id.* Because the Company is currently purchasing several financial hedging instruments that are not included in the Company's IRP, Staff expects at a minimum that the Company would consider market alternatives when it addresses resource optimization in future IRPs. *Id.* at 6-7.

INTERMOUNTAIN'S REPLY COMMENTS

On August 20, 2002, Intermountain filed reply comments that addressed three of the issues raised in Staff's Comments. First, the Company noted that it has taken action to correct the "administrative clerical oversight" that caused Intermountain's name to be absent from the list of partners and participants on the "Rebuild Idaho" program website. An attached letter from the Idaho Department of Water Resources stated that in spite of the lack of an official agreement, the Company "has operated in the capacity of a partner" and "cooperatively provided specific assistance and services to the Rebuild Idaho Partnerships since September 2000."

The second issue addressed in the Intermountain Reply Comments was its cooperative program with Wells Fargo Bank to finance high-efficiency heaters. Although Staff was informed by Intermountain Gas representatives that "the program would finance a minimally efficient appliance

much the same as an efficient one," the Company believes the implication that the Wells Fargo program finances inefficient natural gas equipment distorts both the program and the marketplace. Intermountain argued that according to 24 HVAC dealers in their service territory, more than 70% of the natural gas space heaters sold and installed are at least 90% efficient as compared to the 78% efficiency standard mandated by the Energy Policy Act of 1992.

In response to Staff's recommendation that the Company's IRP should include a more extensive analysis of alternative supply basins, Intermountain noted that natural gas from basins which normally supply the Midwest and/or California are not price competitive. Moreover, Intermountain stated that it does not have access to transportation capacity to deliver such supplies into Idaho.

COMMISSION DECISION

Does the Commission wish to acknowledge receipt (filing) of the Company's 2002 Natural Gas Integrated Resource Plan? If so, does the Commission wish to acknowledge that the filed plan satisfies the requirements set forth by the Commission in Order No. 24342?

Lisa Nordstrom

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