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# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S 2002 INTEGRATED RESOURCE PLAN.** | ) | **CASE NO. INT-G-02-2** |
| | ) | **COMMENTS OF THE COMMISSION STAFF** |

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Filing, Notice of Modified Procedure and Notice of Comment Deadline issued in Order No. 29039 on May 30, 2002, submits the following comments.

On April 19, 2002, Intermountain Gas Company (IGC; Intermountain: Company) submitted its 2002 Integrated Resource Plan (IRP) with the Idaho Public Utilities Commission (Commission). The Company's filing was made pursuant to the Commission's directive in Order No. 24342, Case No. GNR-G-93-2 (reference PURPA § 303(b)(3), Energy Policy Act of 1992). Intermountain Gas supplies natural gas to approximately 200,000 customers in southern Idaho.

## STAFF COMMENTS

Commission Order No. 25342 in 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 the IRP should contain. The Commission twice modified the requirements for Natural Gas Integrated Resource Plans in:

- Order No. 27024 allowed Natural Gas Utilities to shorten the planning horizon to 5 years to match the Company's planning horizon and available market products.
- Order No. 27098 stated, "It is no longer a requirement that gas IRPs include formal evaluations of costs and benefits of potential DSM programs as they have been provided for in previous IRPs under the previous guidelines set forth in Case No. GNR-G-93-2 Order No. 24981. Instead, a general explanation with each IRP filing of whether there are cost effective DSM opportunities will be sufficient."

Staff has listed these elements and policy requirements below, and commented on how well the 2002 IRP filed by Intermountain Gas addresses each one.

*01. Purpose and Process*

No Staff Comments

*02. Definition.*

No Staff Comments

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.*

Intermountain Gas' IRP includes an extensive 25-year economic forecast for Idaho and the Company's service territories (IRP Exhibit 2). The Company uses the economic forecast information along with its Market Penetration Rates and Gas Market Conversion Rates to develop its 5-Year New Customer Forecasts, Adjustments and Total Customer Forecasts (IRP Exhibit 2, Appendices B, C, and D respectively). The following is a summary of the

Company's residential and small commercial customer growth projections:

| Residential and Small Commercial 5-Year Customer Growth Projections | | | | |
|---|---|---|---|---|
| | Customer Projection 2003 | Customer Projection 2007 | Average Annual Customer Increase | Average Percentage Increase |
| Low Growth | 237,587 | 255,282 | 4,369 | 1.86% |
| Baseline | 243,687 | 289,232 | 11,159 | 4.67% |
| High Growth | 245,612 | 299,387 | 13,155 | 5.47% |

Even though the Company's conversion rate appears to be somewhat optimistic, Staff believes the forecasted growth projections to be in the range of reasonableness.

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.*

Intermountain Gas describes four specific energy efficiency programs that appear to comply with this requirement: 1) The IGC High Efficiency Gas Equipment Finance Program; 2) The "Rebuild Idaho" program; 3) The Gas Technology Institute (GTI); and 4) SCADA access for industrial customers.

While Staff believes these programs may be well intentioned, the amount of energy efficiency improvement achieved or the extent of Intermountain's participation therein appears to be somewhat limited. Even though the name implies that only efficient equipment is financed, the IGC High Efficiency Gas Equipment Finance Program does not require any minimum efficiencies. In fact, lenders, vendors, and Intermountain Gas representatives have informed Staff that the program would finance a minimally efficient appliance much the same as an efficient one.

Even though the Company states it is an active participant in the "Rebuild Idaho" program, Intermountain's name is surprisingly absent from the list of partners and participants on the program's website. However, other energy providers such as Idaho Power and Avista are listed.

Staff was able to verify the Company's participation in the Gas Technology Institute. Every year Staff audits the amount of revenues collected from customers for GTI. However, Staff is unable to find any additional GTI funding by Intermountain other than that directly collected from customers and passed through to GTI.

One efficiency program the Company appears to be actively pursuing is the improvement of the Company's Supervisory Control and Data Acquisition (SCADA) system. This program provides Industrial customers with improved real-time gas usage information so that they can make more informed decisions regarding gas usage.

Intermountain also promotes the efficient use of natural gas through its mass media marketing advertisements. The Company's marketing efforts emphasize the overall heating efficiencies of the direct use of natural gas versus other heating resources. For instance, the Company emphasizes the greater efficiency of using a 96% efficient gas furnace to heat a house versus using a 50-55% efficient combustion turbine generator to generate electricity, which the customer then uses to heat an all-electric home.

The combination of Intermountain's energy efficiency programs and activities appear to minimally meet the IRP requirements. The IRP does not assess technically feasible improvements by customer class nor does it evaluate the limited programs that are provided.

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 comments included with section d.

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.*

The Company's IRP does not include a separate quantitative evaluation of market opportunities other than the general input into its spreadsheet planning model. However, the Company does provide a general narrative discussion of available supply basins, transportation options, and storage resources. The IRP also discusses reliability constraints and general cost causation factors involved in natural gas procurement. The Company discusses the many options available for supply, transportation, and storage along with the general decision criteria necessary to meet the supply needs of its customers.

The only quantitative resource utilization analysis included in the IRP is the Company's resource optimization spreadsheet model. Even though this model appears to properly evaluate the Company's existing resources, it does not include an extensive analysis for alternative supply basins, contract considerations, or market available instruments. Staff recognizes that the shortened 5-year planning horizon would be biased toward existing contracts. However, the planning horizon should not restrict the Company from considering multiple market alternatives. The resulting spreadsheet model output (IRP Exhibit 5) is the basis of the Company's 5-year optimized integrated resource plan.

*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 comments included with section f.

*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.*

The Company's IRP is based on the shorter 5-year plan for resource optimization. The Company believes the dynamic and volatile nature of the natural gas industry does not lend itself to the 20-year planning horizon and that the shortened planning horizon approaches the maximum length that can provide reasonably accurate output. Therefore, the 5-year planning period provides sufficient detail for short-run decisions and a reasonable planning length for longer-term transactions available in the market place.

The IRP indicates that several pipeline construction projects are warranted. Pipeline improvement projects are recommended on the Company's two major laterals - the Idaho Falls Lateral and the Sun Valley Lateral. Other projects may be necessary in the near future depending on the specific nature of customer growth and whether the proposed gas-fired generation plant will be constructed in the Company's Canyon County region.

It appears that the Company recommends no changes to its supply portfolio because all existing resources are utilized and assumes that any supply deficiencies will be available from the wholesale market. The Company makes these assumptions even though the IRP does not include a detailed analysis of long-term viability of the wholesale market.

*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.*

Intermountain Gas' previous IRP was filed in 1995. The Company did not provide a comparison between the 1995 plan and the 2002 plan. When questioned by Staff, the Company responded that because of the changes in the natural gas market and IRP filing requirements, the data was not directly comparable and therefore no comparison was included. The Company further stated that all subsequent IRP filings will include a progress report that relates the new plan to the previously filed plan. Staff agrees that the Company should provide the comparison in future plans. However, the Company could have included a comparison in this plan because the previous plan included a ten-year planning horizon that ended in 2005.

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

Not applicable in this Case.

*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 met this criterion. It held two public workshops during the development of the Integrated Resource Plan. The workshops were held on February 27, 2002 at their offices in Boise and on March 1, 2002 at the Ameritel Inn in Pocatello.

*07. Legal Effect of Plan.*

No Staff comments on this Section.

**ADDITIONAL COMMENTS**

**Resource Optimization**

Staff is aware that the shortened 5-year planning horizon will skew resource decisions toward the existing long-term contracts. However, the allowance of a shorter planning horizon should not be used as an excuse for the Company to avoid exploring market available alternatives. The Company is currently purchasing several financial hedging instruments that are not included in the Company's IRP. Staff would expect at a minimum that the Company would consider market alternatives when it addresses resource optimization in future IRPs.

**STAFF RECOMMENDATION**

Staff believes that Intermountain's 2002 IRP minimally satisfies the technical requirements of Commission Order No. 25342 as modified by Order Nos. 27024 and 27098, and recommends acceptance for filing. Staff's recommendation should not be interpreted as approval of the plan, or as a judgment of the prudence of any transactions under take as part of the plan.

Dated at Boise, Idaho, this day of August 2002.

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Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Michael Fuss

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