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April 23, 2020

Diane Hanian, Commission Secretary
Idaho Public Utilities Commission
11331 W. Chinden Blvd. Building 8, Suite 201-A
Boise ID 83714

Reference: INT-G-19-07 - Intermountain Gas Company – 2019 Integrated Resource Plan

Subject: Comments regarding Intermountain Gas Company 2019-2023 Integrated Resource Plan

Dear Commissioners:

The 2019 Integrated Resource Plan (IRP) Intermountain Gas Company (IMG) has submitted is improved in several respects from their 2017 IRP iteration. Irrespective of these improvements, Sierra Club believes the current 5-year, 2019-2023 focus is no longer sufficient to determine whether IMG's plans are consistent with the public's interest. An analysis further than just five years into the future is needed to meet current conditions.

Secondly, a responsible planning process should include consideration of plausible future scenarios, and the potential for a carbon charge is a plausible scenario which the IMG IRP failed to model. Sierra Club (and many other observers) currently foresee companies like IMG facing a substantial federal regulatory risk in the form of charges for CO₂ pollution. Those carbon charges could make substitution to electric heat pumps for space and water heating a superior economic solution for IMG's residential and commercial customers. Such fuel substitution would have a dramatic impact on future demand for IMG's product.

One of the purposes of utilities regulation is to avoid costly, wasteful duplication of infrastructure. Without improved IMG analyses, including how charges for CO₂ pollution effect future demand for its product, the public interest is at risk of incurring unnecessary costs in the form of wasteful future investments by IMG in its distribution infrastructure.

WE NEED TO DISTINGUISH BETWEEN WHOLESALE AND RETAIL MARKET CONCERNS

Decades ago, IMG asked the Commission to relieve it of the duty to forecast 20-years into the future and substitute a 5-year look ahead. To protect the public interest from wasteful investments, it is time to review that topic in light of current conditions.

In April 1997, Intermountain Gas Company filed an Application with the Idaho Public Utilities Commission requesting, among other things, that the forecasting horizon in their IRPs be limited to a period of five years¹. IMG noted that “pressures of a more open, competitive marketplace” could put them at a competitive disadvantage if they were forced to disclose their wholesale market purchase plans more than 5 years into the future.

The Commission, acknowledging that the natural gas industry was in transition, reduced the scope of natural gas IRPs from 20 years to 5 years. Staff supported several of the requested changes, conditioned on continued production of “sound, useful and informative plan(s)”² and the Commission found that “(t)he public interest requires consideration of a full spectrum of opportunities available to the Company, including conservation and efficiency measures which would be of direct benefit to its customers”³.

The entire energy industry is in transition today. While it may have been inconsequential in 1997, in protecting wholesale market information the order also reduced the scope of review for retail projections. Today, the outlook for future demand includes potential disruptions and changing market conditions which could significantly impact demand forecasts and inform utility investment decisions.

While competitive conditions in the wholesale markets for natural gas may still warrant keeping the 5-year scope of review of the adequacy of IMG’s plans to supply the demand for its products, serving the public interest warrants a 20-year review of potential demand scenarios in order to responsibly inform long-life asset investment decisions.

CARBON CHARGES AND OVERESTIMATED DEMAND

Order 34357, which the Commission issued to provide notice related to IMG’s 2019 IRP, noted that prior IPUC orders imposed requirements on IMG to prepare their IRP in a fashion that

- includes forecasting future gas demand in a manner that recognizes the “effects from economic forces on gas consumption”⁴ and
- requires strategies for meeting customer needs “at the lowest cost to the utility and its ratepayers”⁵

In its 2019 IRP, IMG forecasts in its base case scenario a high future load growth, averaging more than 2% per year. Much of the projected average load growth and most of its projected

¹ See Order 27024, dated June 30, 1997, page 1

² Id, page 3

³ Id, page 4

⁴ See Order 34357, dated January 31, 2020, page 2

⁵ Id, page 3



peak load growth are associated with increases from IMG's 330,000 current and future residential customers. Within the residential customer class the largest portion of the load is associated with space and hot water heating.

There are currently multiple proposals in front of the Congress to impose charges for CO₂ pollution. If future charges for carbon pollution raise the price of natural gas, the economics related to substitutes for high-temperature industrial uses of natural gas are uncertain.

In contrast, already there are substitute technologies for producing the low temperature (70° space and 120° hot water) services residential customers rely on IMG to provide. These alternatives are not reflected in the IRP demand forecasts. At foreseeable levels of carbon charge, it will be lower cost for commercial and residential customers to move heat via electric heat pumps rather than release heat from methane combustion to meet their space and water heating needs.

Sierra Club is concerned that IMG's failure to analyze how the economic forces of potential carbon charges biases their projections of residential customer gas consumption with the result of substantially over-estimating future average and peak loads. These erroneous demand estimates could be used by IMG to justify wasteful future upgrades to its distribution system.

DUPLICATED ASSET INVESTMENTS AND THE PUBLIC INTEREST

Most of the distribution system capacity upgrades IMG projects are driven by projections of rising residential loads. Needle peak winter demand drives IMG distribution capacity considerations, and the needle peak demand is largely driven by space heating load from residential furnaces. Industrial gas loads are relatively flat over the year. Residential load is spread over several hundred thousand distribution locations, while industrial loads are concentrated in a relatively small number of locations.

Investments into distribution assets should be informed by long-term demand analyses. Gas pipelines and associated distribution equipment have useful lives measured in decades. Most residential furnaces and water heaters have a useful life of less than 20 years. Sierra Club believes the Commission needs to act in order to minimize the chances that IMG acts against the public interest by investing in upgrades to their distribution system capacity that become surplus to useful requirements long before the end of their otherwise useful lives.

REQUESTED CHANGES

Sierra Club requests that the Commission advise IMG to make the following changes in its next IRP –



1. Separate wholesale and retail market projections. Retain the 5-year term for analysis of wholesale market accessed supply adequacy. But analyze demand over a 20-year time horizon. The other natural gas utility serving Idaho customers as well as electric utilities already do these 20-year demand look-aheads. IMG should forecast customer demand over the upcoming 20-years too.
2. In all future demand analyses, include scenarios that reflect the effects of carbon charges on the demand of various customer classes.
3. Identify locations within its service territory where projected distribution system upgrades are likely to be needed in order to serve peak winter natural gas loads. Sierra Club foresees IPUC staff using these location and load data to evaluate whether existing capacity on the summer peaking electric grid at those locations could potentially be served at a lower cost to the public by promoting fuel substitution from natural gas fired furnaces to electric heat pumps. In avoiding wasteful distribution system upgrades, this change addresses the requirement that IMG's IRPs cover strategies to provide service "at the lowest cost to the utility and its ratepayers".

Respectfully submitted,

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Chair, Energy Committee
Idaho chapter Sierra Club