

NATURAL GAS

Consumption increased and prices declined in FY2017

In Idaho, natural gas is supplied to customers by Avista Utilities, Dominion Questar Gas and Intermountain Gas Company.

Idaho is fortunate to be located between two large natural gas storage basins: The Rocky Mountain Basin (Rockies) and the Western Canadian Sedimentary Basin (WCSB).

These basins are connected through the Williams Northwest Pipeline and the TransCanada Gas Transmission Northwest pipelines allowing the utility companies serving Idaho to take advantage of capacity and of pricing at both basins.

FY 2017 Statistics	Total	Residential	Commercial	Industrial	Transportation
Intermountain Gas					
Customers	346,894	314,444	32,330	19	101
% of Total	100%	90.65%	9.32%	0.01%	0.03%
Therms (millions)	783	247	129	8	399
% of Total	100%	31.53%	16.48%	1.03%	50.96%
Revenue (millions)	\$277.60	\$178.97	\$83.58	\$3.43	\$11.57
% of Total	100%	64.48%	30.11%	1.24%	4.17%
Avista Utilities					
Customers	80,915	72,000	8,812	95	8
% of Total	100%	88.98%	10.89%	0.12%	0.01%
Therms (millions)	145.60	52.54	30.79	2.49	59.78
% of Total	100%	36.09%	21.15%	1.71%	41.06%
Revenue (millions)	\$67.6	\$45.25	\$20.43	\$1.35	\$0.54
% of Total	100%	66.97%	30.24%	2.00%	0.80%
Dominion Questar Gas					
Customers	2,160	1,910	250	0	0
% of Total	100%	88.43%	11.57%	N/A	N/A
Therms (millions)	2.41	1.36	1.05	N/A	N/A
% of Total	100%	56.50%	43.50%	N/A	N/A
Revenue (millions)	\$1.91	\$1.17	\$0.74	N/A	N/A
% of Total	100%	61.34%	38.66%	N/A	N/A

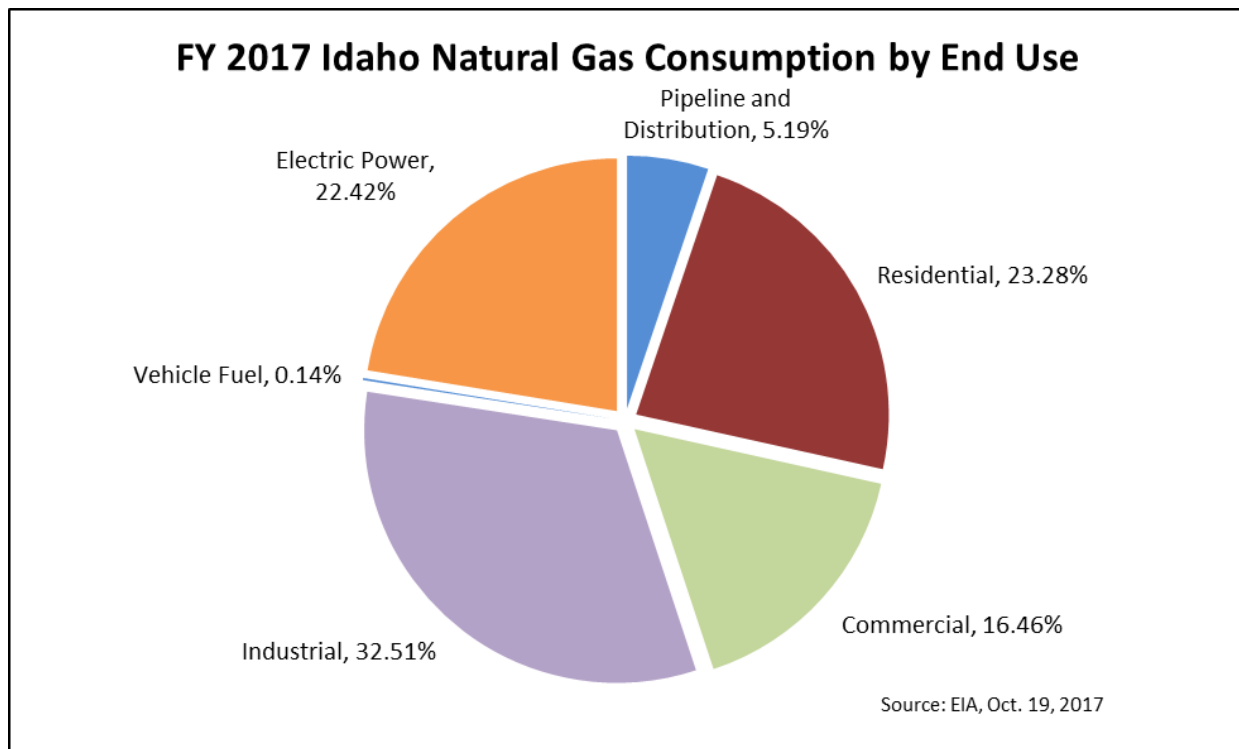
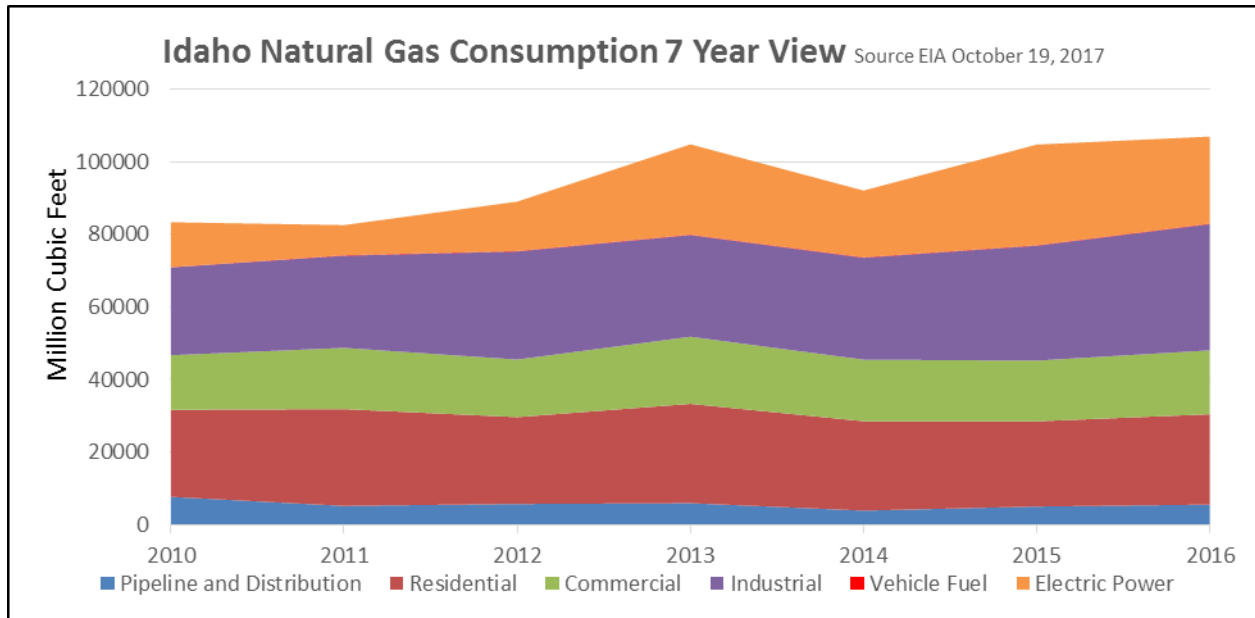
Transportation is nonutility owned gas transported for another party under contractual agreement.

NATURAL GAS

Individual Idaho Gas Utility Profiles

Consumption

Overall consumption of natural gas in Idaho increased 2.1 percent during the fiscal year. All segments consumed more natural gas than the previous year with the exception of gas for electric generation, which declined approximately 13.5 percent.



NATURAL GAS

Demand

The Northwest Gas Association (NWGA) forecasts demand for natural gas in the Northwest to grow at a Compound Annual Growth Rate (CAGR) of approximately 0.8% per year over the next 10 years.

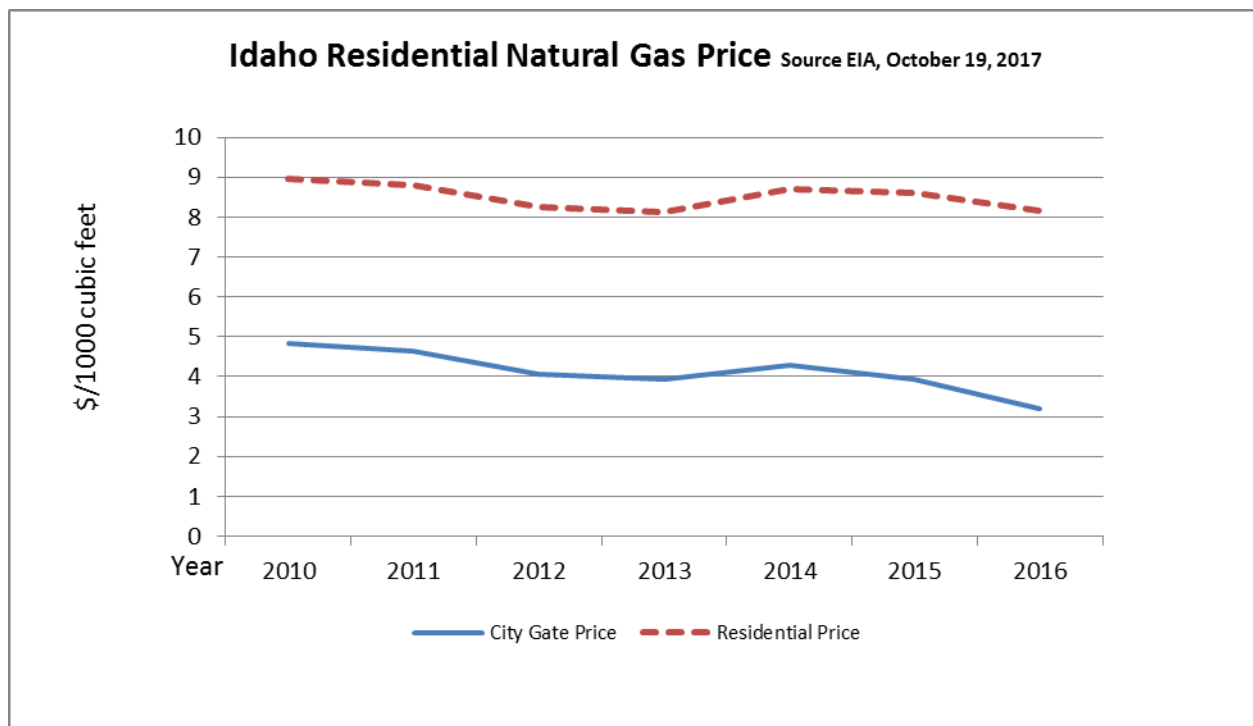
A number of factors could impact demand for natural gas:

- Pricing
- Natural gas used for generating electricity
- Significant incremental industrial loads
- The potential for natural gas as a transportation fuel
- LNG and petrochemical production and exports
- Energy policies, regulations and legislation

Prices

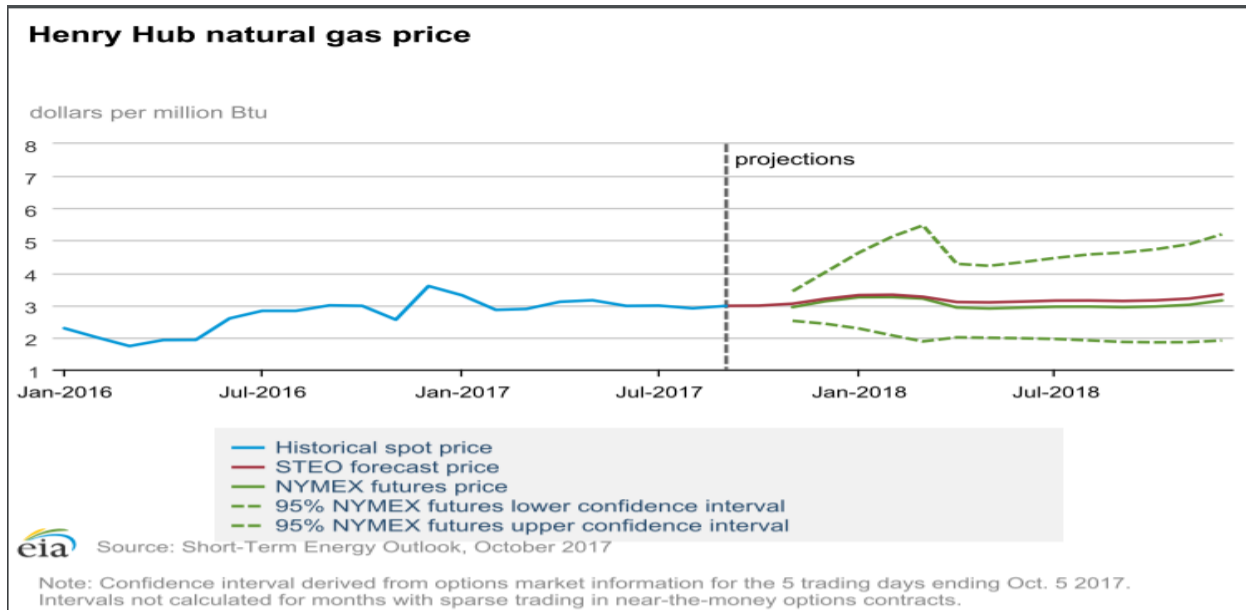
Recently, prices at the Henry Hub have been hovering near \$3.00/MMBtu and are anticipated to remain close to this level in 2017. Prices in 2018 are expected to increase slightly over 2017.

Natural gas spot prices are projected to increase in 2018 to an average of \$3.19/Dth (dekatherm*), at the Henry Hub.



*Dekatherm = 10 therms or 1,000,000 British thermal units (MMBtu)

NATURAL GAS



A number of market dynamics could influence future natural gas prices:

- North American economic growth
- Regulatory costs that add to the cost of accessing, producing or transporting natural gas
- Advances in exploration and production tools and technologies

Production

In 2016, Idaho completed its first full year of natural gas production for commercial use. Alta Mesa Holdings LP is currently the only natural gas producer in Idaho.

Alta Mesa operations overview:

- 17 wells located in the Payette, Idaho basin.
- 8 wells are producing natural gas, condensate, oil, and other liquids.

The Company's processing facility is located at Willow Creek near Payette. End Uses:

- Oil and condensate are collected at the Willow Creek facility and transported by truck to the Ontario Oregon railyard and shipped to Salt Lake City and other destinations for processing.
- Intermountain Gas Company is connected to one of Alta Mesa's wells and purchases natural gas to serve the Payette Idaho area.
- Williams Northwest Pipeline Company is connected to Alta Mesa and purchases natural gas for its interstate pipeline business.

Summary

Idaho residential, commercial and industrial users of natural gas continue to benefit from low natural gas prices and plentiful supply. Advancements in exploration, extraction, and production techniques continue to transform the industry.

NATURAL GAS

NOTABLE LEGISLATIVE DEVELOPMENTS

Law establishes Oil and Gas Conservation Commission

In the 2017 Legislative session, Idaho lawmakers unanimously passed House Bill 301 to regulate the exploration, drilling and production of oil and gas resources on private, state and federal land throughout the state.

The law called for the creation of the Idaho Oil and Gas Conservation Commission consisting of three technical experts, the state Department of Lands director and a county commissioner from a county in which oil and gas production is underway.

The law clarifies definitions and reporting requirements for the production and sale of oil and gas in Idaho, while providing protection for landowners, penalties for noncompliance and public access to information related to the production of oil and gas. The information is hosted on a new website, <https://ogcc.idaho.gov>.

Law establishes requirements for oil and gas producers

Senate Bill 1098 requires oil and gas producers to file monthly statements with the Idaho Tax Commission documenting the name, description and location of every well or oil and gas field that contains wells. The law, which took effect July 1, authorizes the state Tax Commission to conduct audits of oil and gas producers every three years.

The intent of the new law was to clarify the reporting requirements of oil and gas producers.

NATURAL GAS CASES

Tentative settlement reached in Avista rate case

In June, Avista asked for approval of a two-year plan calling for rate increases in 2018 and 2019. The company said the request was driven by the need to replace or upgrade its aging infrastructure.

A tentative settlement agreement was reached in late September. If approved by the Commission, the settlement would lead to an average rate increase for natural gas service of 1.9 percent in 2018 and 1.8 percent in 2019.

The company's original proposal called for increases of 5.7 percent in 2018 and 3.3 percent in 2019.



The proposed settlement also calls for an increase of 75 cents to the basic charge, raising it to \$6 per month.

Among the planned capital investments necessitating the need to increase revenue are an ongoing project to replace portions of a natural gas distribution line, upgrades to the company's transmission and distribution system and technological improvements.

The proposed settlement calls for reductions or delays in a number of projects included in the company's original proposal, including a delay in a new meter data management system that decreases the revenue requirement by \$415,000, and \$300,000 in reductions tied to miscellaneous expenses.

The proposed settlement agreement was reached between several parties to the case after a settlement conference in late September. Those parties include Clearwater Paper, Idaho Forest Group and the Community Action Partnership Association of Idaho. Sierra Club and the Idaho Conservation League opposed the settlement agreement.

For natural gas service, the settlement terms are designed to increase annual billed revenue by \$1.2 million in 2018 and \$1.1 million in 2019. The original proposal would have increased annual billed revenue by \$3.5 million in 2018 and \$2.1 million in 2019.

The revenue increases are based on a 9.5-percent return on equity, down from a 9.9-percent return on equity in Avista's original proposal.

If the settlement is approved, a residential natural gas customer using an average of 63 therms per month would see an increase of \$1.13 per month, for a monthly bill of \$53.74. In 2019, that customer would see an increase of \$1.09 per month for a monthly bill of \$54.83.

Commission accepts Avista long-range planning document

In February, the Commission accepted Avista's Natural Gas Integrated Resource Plan (IRP). The utility is required to file an updated IRP with state regulators every two years. The plan outlines the ways in which Avista expects to meet the demand for natural gas among its customers.

The IRP anticipated annual growth of about one-half percent over the next decade, with about a 0.8 percent increase in peak-day use. The IRP said the utility was well-positioned to meet the increased de-

NATURAL GAS CASES

mand through a diversified portfolio of natural gas supply resources, including storage, firm capacity rights on six pipelines and contracts to purchase natural gas from several supply basins.

Among the projects highlighted in the plan were an \$8 million Coeur d'Alene High Pressure Reinforcement project to address low-pressure conditions in the Hayden Lake system that generally occur when demand is high during winter conditions, the Schweitzer Mountain Road High Pressure Reinforcement (\$1.5 million) and 2019 gate station improvements at Athol, Bonners Ferry and Genesee.

Commission approves Intermountain Gas efficiency program

The Idaho Public Utilities Commission in September approved an Intermountain Gas proposal to create and fund a new efficiency program for residential customers.

Intermountain's Demand Side Management (DSM) Program is funded through an efficiency rider or surcharge of 0.367 cents per therm – that is 22 cents per month for the average customer using 61 therms per month.



Intermountain's DSM program is expected to cost \$770,000 in its first year, with \$600,000 earmarked for rebates to customers who enact efficiency measures on new or existing homes.

In order for the program to be funded by the efficiency rider, the Commission requires that a utility demonstrate that costs related to the programs over the previous 12 months were prudently incurred.

If the costs are found to be unreasonable, or to exceed the benefit to customers, they are borne by shareholders rather than customers.

Several tests are used to determine prudence, or whether the benefits outweigh the costs.

In a successful DSM program, all customers benefit because the change in energy use helps the utility avoid or defer building costly new generation resources or avoid the need to procure additional resources at an additional cost.

Commission approves decrease to surcharge

In September, the Commission approved an Intermountain Gas proposal to decrease a recovery mechanism known as the annual Purchased Gas Cost Adjustment (PGA).

The change lowered the monthly bill for the average residential customer by \$3.32. Commercial customers saw an average decrease of \$16.42 per month, while two customer classes – large volume and transportation – saw a slight rate increase.

The PGA is adjusted each fall with Commission approval, to reflect changes in expenses related to the natural gas purchased from suppliers as well as changes in transportation, storage and other variable costs.

In addition to changing the PGA to reflect the cost of providing natural gas to Intermountain's customers, the company requested Commission approval to recover \$699,114 in expenses incurred for auditing

NATURAL GAS CASES

and consultation from third parties during its recently resolved general rate case.

The Commission approved the recovery via the PGA of \$378,614 over five years, or \$75,723 per year. It did not disallow the recovery of the balance of the expenses but said the prudence of the remaining \$319,963 had not been determined.

Those expenses will be considered during the company's next general rate case.