NATURAL GAS

Consumption increased, prices were stable in FY2018

In Idaho, natural gas is supplied to customers by Avista Corporation, Dominion Questar Gas and Intermountain Gas Company. Idaho is fortunate to be located between two large natural gas 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 pricing at both basins.

Utility Profiles

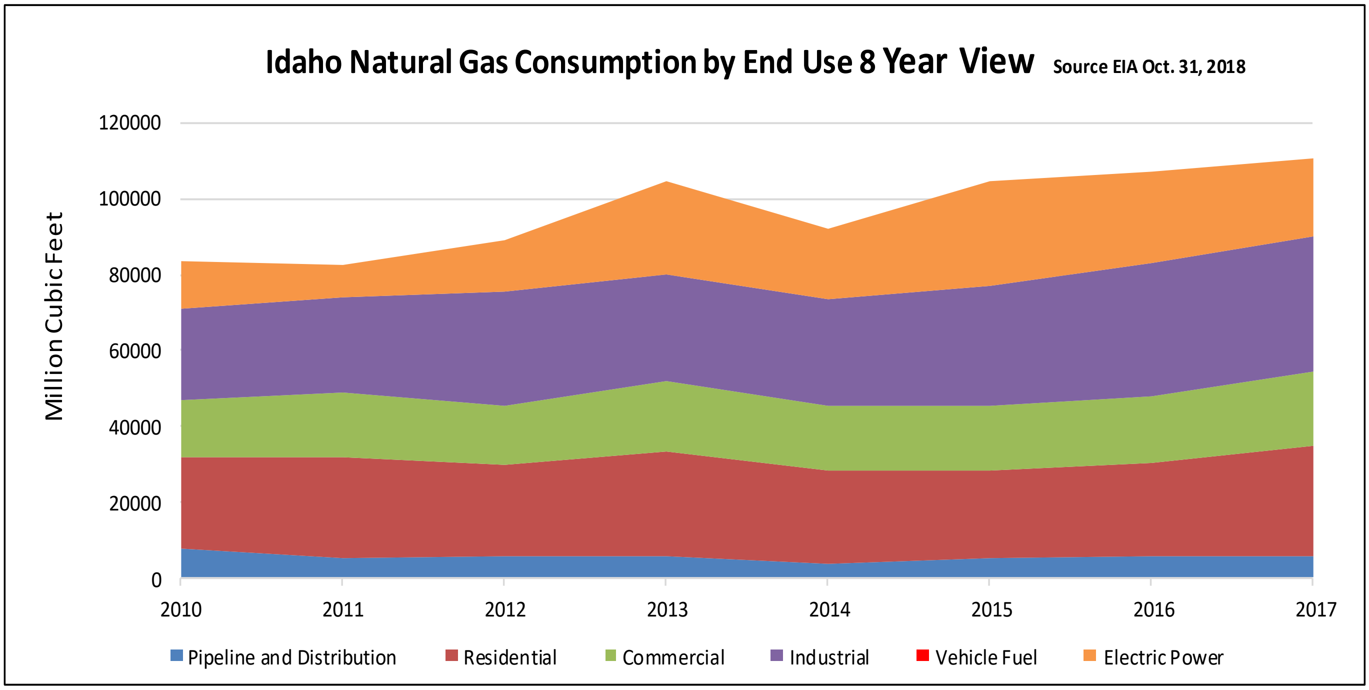
FY 2018 Statistics	Total	Residential	Commercial	Industrial	Transportation
Intermountain Gas					
Customers	357,401	324,451	32,824	20	106
% of Total	100%	90.78%	9.18%	0.01%	0.03%
Therms (millions)	710	235	120	8	348
% of Total	100%	33.05%	16.89%	1.06%	49.00%
Revenue (millions)	$245.69	$160.01	$72.81	$3.00	$9.87
% of Total	100%	65.13%	29.63%	1.22%	4.02%
Avista Corporation					
Customers	83,516	74,417	8,999	92	8
% of Total	100%	89.11%	10.78%	0.11%	0.01%
Therms (millions)	133.39	51.75	30.32	1.93	36.55
% of Total	100%	38.80%	22.73%	1.71%	41.06%
Revenue (millions)	$64.6	$43.57	$19.13	$1.29	$0.58
% of Total	100%	67.48%	29.63%	2.00%	0.90%
Questar Gas					
Customers	2,200	1,950	250	0	0
% of Total	100%	88.64%	11.36%	N/A	N/A
Therms (millions)	2.43	1.37	1.06	N/A	N/A
% of Total	100%	56.21%	43.79%	N/A	N/A
Revenue (millions)	$2.0	$1.24	$0.79	N/A	N/A
% of Total	100%	61.08%	38.92%	N/A	N/A

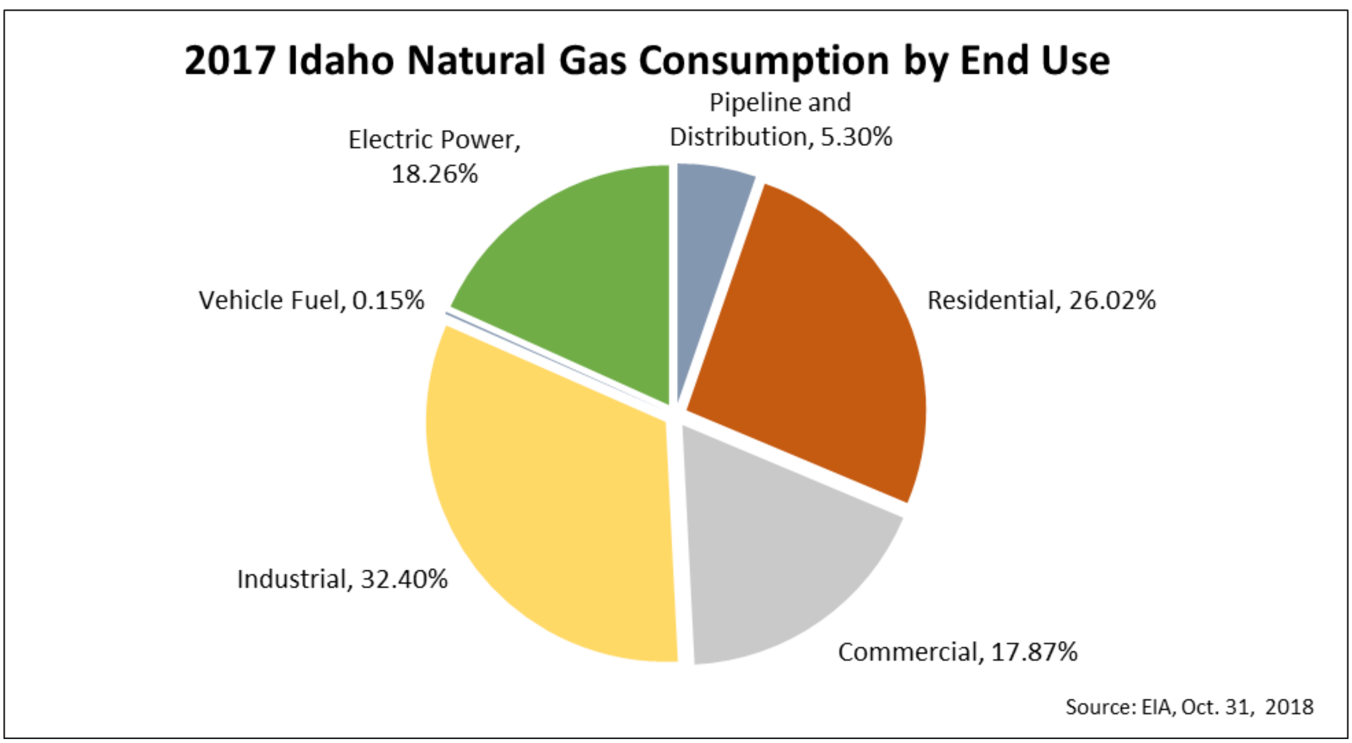
The Idaho Public Utilities Commission's fiscal year is July 1st through June 30th.
Transportation is non-utility owned gas transported for another party under contractual agreement.

NATURAL GAS

Consumption

Overall consumption of natural gas in Idaho increased by 3.5 percent. All segments consumed more natural gas than the previous year with the exception of gas for electric generation, which declined by approximately 16 percent.





NATURAL GAS

Demand

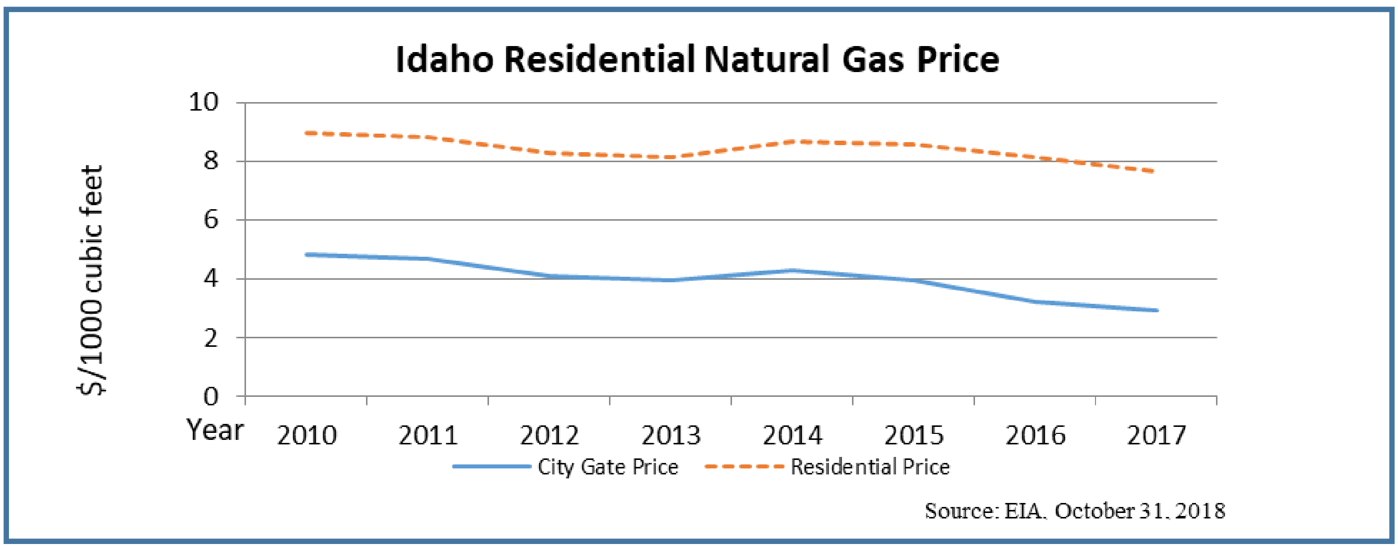
The Northwest Gas Association (NWGA) forecasts demand for natural gas in the Northwest to grow at a Compound Annual Growth Rate (CAGR) of approximately 0.8% per year over the next 10 years.

A number of factors could impact demand for natural gas:

- Coal replacement
- 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, regulation and legislation

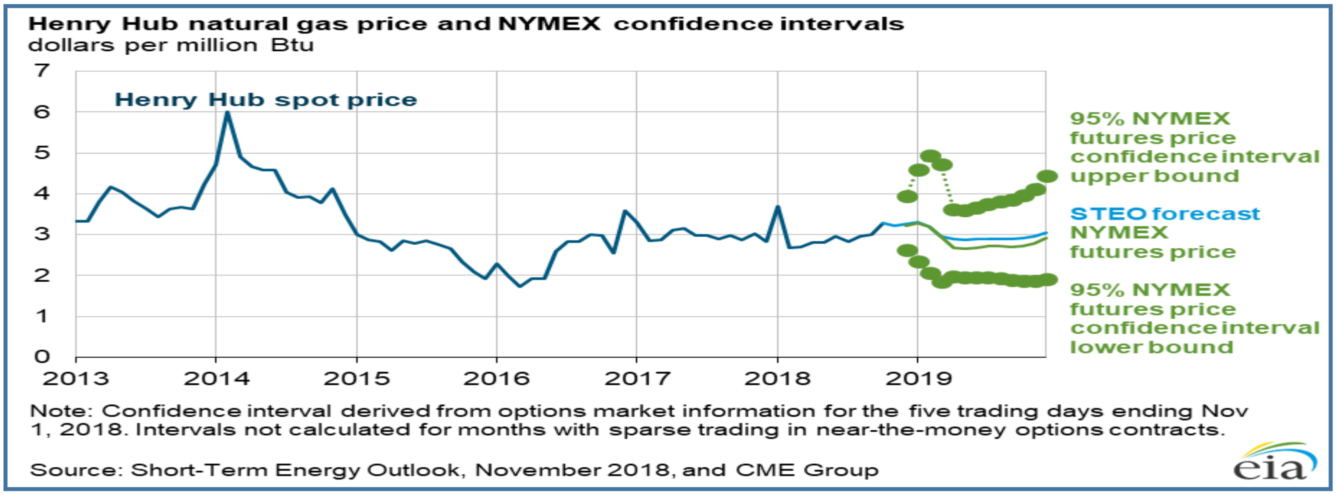
Prices

Recently, prices at the Henry Hub in southern Louisiana, a benchmark, have been hovering near $3.00/MMBtu and are anticipated to remain close to this level for the foreseeable future. Henry Hub natural gas spot prices are projected to be $3.12/Dth in 2018 and $3.09/Dth in 2019.



Northwest Gas Association 2018 Pacific Northwest Gas Market Outlook
Dekatherm = 10 Therms or 1,000,000 British thermal units (MMBtu)

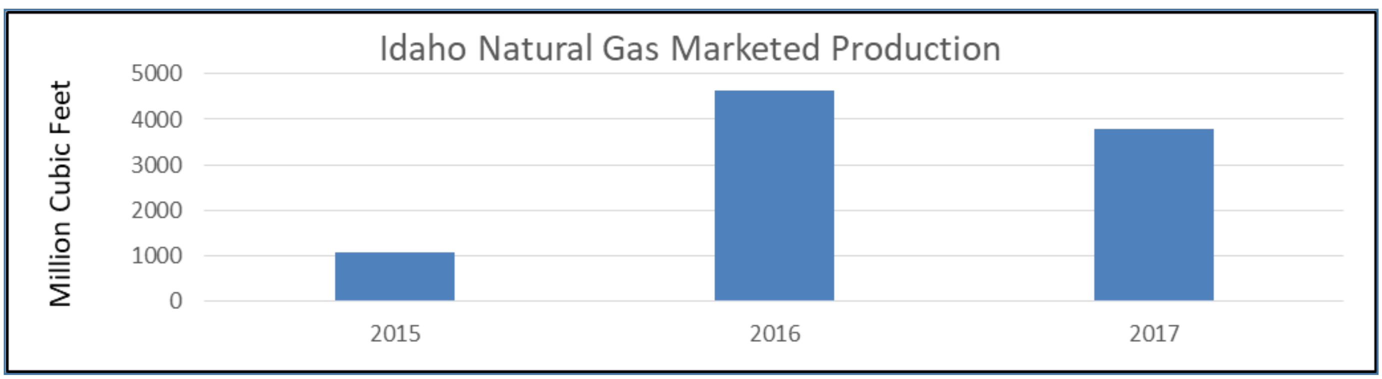
NATURAL GAS



Production

Alta Mesa Holdings LP is currently the only natural gas producer in Idaho. Alta Mesa operations overview:

- 17 wells located in the Payette basin.
- Nine wells producing natural gas, condensate, oil and other liquids.
- Processing facility located at Willow Creek near Payette.



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.

-by Kevin Keyt, IPUC Staff Analyst

NATURAL GAS CASES

Avista submits long-range planning document for Commission acceptance

Avista expects increased reliance on conservation and efficiency to offset the need for additional natural gas generation over the next 20 years, according to a planning document filed with state regulators in the fall.

Avista is required to file the Natural Gas Integrated Resource Plan (IRP) with the Commission every other year. The IRP is intended to demonstrate the utility's plan to provide safe, reliable and economic natural gas service to its customers in a number of scenarios, covering various weather and market conditions, over a 20-year planning period.

Commission acceptance of the plan does not signal approval or endorsement of every aspect of the IRP, but rather that the company has met its requirement to file the plan.

Avista's 2018 IRP notes that while there has been an increase in the supply of natural gas in the US, and subsequent low costs have led to increasing interest in natural gas, the utility does not anticipate growth in demand among its traditional residential and commercial customers throughout the planning period.

Lower prices could lead to increased demand for natural gas among Large Industrial customers, however.

The IRP's Expected Case scenario anticipates the total number of customers to grow from 348,000 today to 412,000 in 2037, with the average daily demand increasing at an annual rate of 0.02 percent.

The peak-day demand for natural gas is expected to increase by an average 0.71 percent annually through 2037.

To meet that demand, Avista maintains a diversified portfolio of natural gas supply resources, including storage, firm capacity rights on six pipelines and contracts for the purchase of natural gas from multiple supply basins.

Analysis conducted for the IRP found no resource deficiencies through the 20-year planning period in all conditions except the High Growth and Low Price scenario. In all other cases examined, the outlook determined that existing resources will be sufficient to meet demand through 2037.

Rather than adding supply, the IRP calls for efficiency and conservation, or Demand Side Management (DSM), to play a significant role in meeting demand.

That differs from 2016, when the utility said low natural gas prices rendered DSM programs cost-ineffective.

Commission approves funding increase for low-income programs

In May, the Commission approved a joint request from Avista and the Community Action Partnership Association of Idaho to increase funding for two programs – the Low Income Weatherization Program and Energy Conservation Education Program.

The Commission's decision did not impact rates; rather, the funding is through the company's Energy Efficiency rider. The Commission said the move to increase funding for the weatherization program by $125,000 annually, and the Energy Conservation Education program by $25,000 per year, was justified due to two factors: a long waiting list for customers interested in enacting weatherization measures in the Lewiston area, and improvements Avista made to measure the programs' cost-effectiveness.

In its order authorizing the change, the Commission said it realized increases to funding the two programs had not

Continued on page 32

NATURAL GAS CASES, CONTINUED

kept pace with base rate increases over the years. The Commission also said the move fulfills its directive that utilities provide a way for all customers to participate in the energy efficiency programs that all customers fund.

Avista requests Commission approval of efficiency program expenses

In mid-November, Avista asked the Commission to determine that approximately $2.9 million it spent on energy efficiency and conservation programs between 2014 and 2017 was prudently incurred.

The utility said more than $1.56 million, or 54 percent of the expenses incurred, was provided to customers through direct incentives.

Avista contends its DSM programs saved 535,449 therms in 2016-2017, exceeding its targets.

Independent evaluators have determined that the expenses were cost-effective, according to the company.

Avista rates decline to reflect market conditions

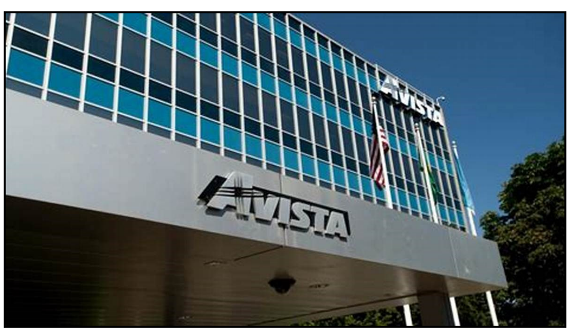
Avista's natural gas rates dropped Nov. 1 after the Commission approved changes to two surcharges, the Purchased Gas Cost Adjustment (PGA) and Fixed Cost Adjustment.

Combined, the changes lowered rates for the average residential customer by approximately 4.9 percent when they took effect Nov. 1.

That equates to a monthly savings of $2.38, lowering that customer's monthly bill from $48.31 to $45.93.

Both the FCA and PGA can be adjusted with Commission approval.

The FCA decreased by 4.2 percent for residential customers. It is designed to break the link between Avista's revenues and energy use among its customers, removing the utility's disincentive to promote energy efficiency and conservation. Effective Nov. 1, it is a rebate of 0.766 cents per therm for residential customers due primarily to increased energy use among customers during a colder-than-normal winter in 2017.



The PGA is designed to account for changes in costs Avista incurred over the previous year purchasing, storing and transporting the natural gas required to serve approximately 83,000 customers in northern Idaho. If the costs do not match the amount that customers paid into the PGA account, the PGA allows Avista to balance the two.

It is reflected as a credit when natural gas prices are lower than the amount included in rates, or as a surcharge when market prices exceed projections.

The primary drivers behind the PGA change that took effect Nov. 1 – a decrease of 0.7 percent for the average residential customer - were continued low natural gas commodity costs and lower costs for transporting natural gas on interstate pipelines to Avista's distribution system.

The change to the PGA was the second decrease to that mechanism to take effect in 2018, following a Commission decision in January to lower the PGA by 6.4 percent for residential customers. That change equated to a savings of

Continued on page 33

NATURAL GAS CASES, CONTINUED

$2.73 per month for the typical residential customer. Though the PGA is typically adjusted in the fall, Avista asked the Commission in December 2017 to authorize a rate reduction so that customers could benefit from lower costs during the winter heating season.

Avista launches new program

Customer service and electric system reliability will be the focus of Avista's Idaho Service Quality Program, approved by the Commission in November.

Rates will not be affected by the implementation of the program, which will be modeled after a similar program in place in Washington.

The program's design calls for Avista to track and report its annual performance in meeting benchmarks created for 13 electric measures and 9 natural gas measures that fall into three categories – customer service, electric system reliability and customer guarantees.

Among them are benchmarks for customer satisfaction based on a quarterly survey; response time for outages, electric system emergencies, connections of service and billing inquiries; and timely completion of investigations into customer-reporter problems.

Avista agreed to develop the program as part of a settlement agreement approved by the Commission in a 2017 general rate case.

The 2018 calendar year will be the initial reporting period, with the first annual report due to the Commission on or before April 30, 2019.

Commission denies Intermountain Gas request for infrastructure mechanism

In June, the Commission denied an Intermountain Gas Co. proposal to implement an Infrastructure Integrity Management Mechanism (IIMM), which would have allowed the company to recover from ratepayers the costs incurred on infrastructure improvements made during the previous calendar year.

In its application filed with the Idaho Public Utilities Commission in late 2017, Intermountain said the IIMM would allow it to speed up the replacement of aging infrastructure, enhancing the safety of its distribution system, and address the increasing impact of regulations.

In its order denying the request, the Idaho Public Utilities Commission said that while it supported the goals of the IIMM related to safety and reliability, the company is obligated to maintain safe and reliable service to its 335,000 customers across southern Idaho regardless of the existence of a cost-recovery mechanism such as the IIMM.

Additionally, the Commission said, the costs the company sought to recover through the IIMM are "predictable and not necessarily volatile" and "do not pose an imminent threat to the safety or integrity of Intermountain's system."

In its order, the Commission also said the IIMM would run afoul of provisions in Idaho Code 61-502A that prohibit the

Continued on page 34

NATURAL GAS CASES, CONTINUED

Commission from setting rates for any utility that grant a return on property not currently used and useful. Since Intermountain's proposal did not call for retiring existing pipe for depreciation purposes, the IIMM would have allowed the company to receive a return on property that had been removed from service.

"Recovery of costs related to the replacement of aging infrastructure, whether accelerated or otherwise, is best accomplished in a general rate case that allows analysis of all expenses, rate base, and impact on the Company's return on equity," the Commission said in its order.

Intermountain Gas rates lowered to reflect market conditions

Rates for Intermountain Gas customers decreased by an average of 10.2 percent on Oct. 1 after the Commission approved a change to the utility's Purchased Gas Cost Adjustment (PGA).

The PGA is the variable component of natural gas rates that can be adjusted annually to account for expenses that fluctuate.

The change is designed to pass through to customers approximately $24.5 million. That led to a 10.0-percent decline in residential rates – a savings of $4.12 per month based on average consumption and weather.

Commercial customers saw a reduction of 11.9 percent, or $21.89/month.

A number of factors contributed to the change, including a decrease in transportation costs billed to Intermountain by its firm transportation providers; a decrease in the Weighted Average Cost of Gas due to higher production in shale gas wells, leading supply to outpace demand; and benefits resulting from Intermountain's management of storage and firm capacity rights on various pipeline systems.