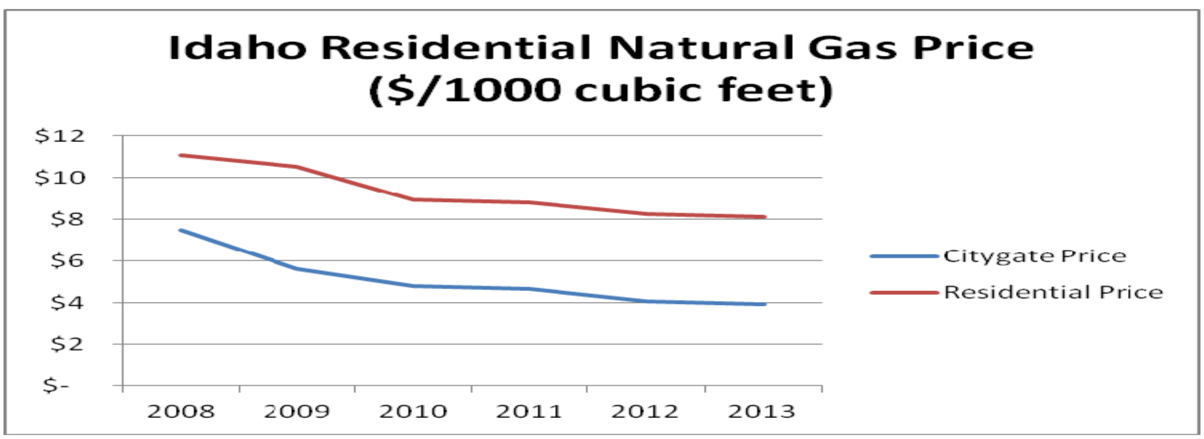
Idaho Natural Gas Utilities

Consumption increasing, but prices declining

Natural gas is supplied to Idaho customers by three utilities (i.e., Intermountain Gas, Avista Corporation, and Questar Gas) and two large transmission pipelines (i.e., Williams Northwest Pipeline in southern Idaho and TransCanada Gas Transmission Northwest (GTN) System in northern Idaho). Natural gas supplies in the Northwest are primarily split between two basins: the Western Canadian Sedimentary Basin (WCSB) and the U.S. Rocky Mountain Basin.

Idaho residents and industries continue to benefit from low natural gas prices and ample supplies. Data compiled by the Energy Information Administration (EIA) shows a continuing decline in residential and City gate[2] prices.



Natural gas is used primarily by residential, commercial and industrial customers and for electric generation. EIA data shows that natural gas consumption for electric generation increased significantly in Idaho between 2012 and 2013,[3] and is anticipated to continue

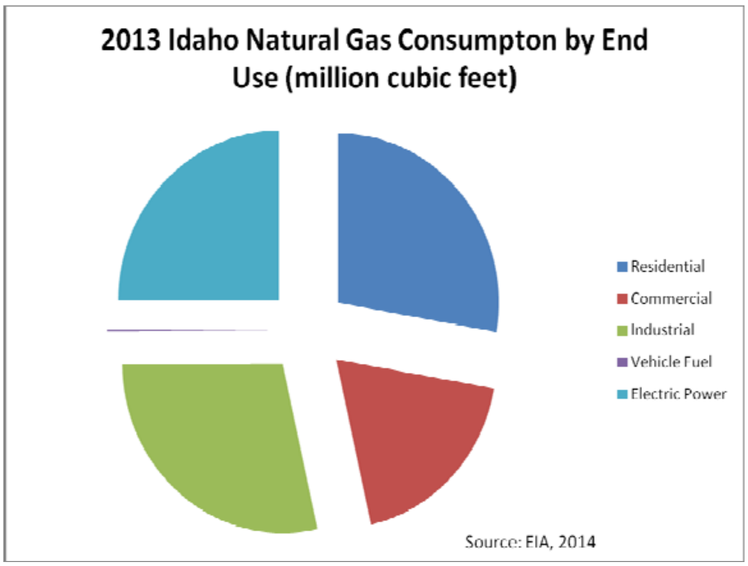
[2] City gate is defined as a point or measuring station from which a local distribution company (LDC) receives gas from a natural gas pipeline company or transmission system.

[3] http://www.eia.gov/dnav/ng/ng_pri_sum_dcu_SID_a.htm

increasing according to the Northwest Gas Association. Residential and commercial is expected to be characterized by modest but steady growth.[4]

Idaho Natural Gas Consumption by End Users (million cubic feet)[5]

	2012	2013	% Change	% by End Use (2013)
Pipeline and Distribution Use	5730	5940	3.7%	5.7%
Residential	23924	27370	14.4%	26.2%
Commercial	15838	18485	16.7%	17.7%
Industrial	29781	27997	-6.0%	26.8%
Vehicle Fuel	132	148	12.1%	0.1%
Electric Power	13599	24594	**80.9%**	23.5%
Total	89004	104534	17.4%	100%



EIA's national short-term energy outlooks for 2014-2015 on natural gas include:

- **Consumption** - Average 73.2 Bcf/d in 2014 (an increase of 2.2% from 2013); growth in industrial sector and electric power sector consumption (i.e., from 22.0 Bcf/d to 22.7 Bcf/d) will offset lower residential consumption in 2015.
- **Production and Trade** - Natural gas production is expected to grow 4.8% in 2014 and 2.3% in 2015. Domestic production is expected to continue to increase, causing downward pressure on natural gas imports from Canada. Low gas prices are also

[4] http://www.nwga.org/wp-content/uploads/2014/05/GasOutlook2014REV_WEB-copy.pdf

[5] EIA, 2014: http://www.eia.gov/dnav/ng/ng_cons_sum_dcu_SID_a.htm

expected to spur exports to Mexico, due to a growing demand from Mexico's electric power sector and flat production.

- **Inventories** - Working inventories totaled 3,571 Bcf as of Oct. 31, 2014, which was 238 Bcf lower than at the same time last year and 261 Bcf lower than the previous five-year (2009-13) average; end-of-March 2015 inventories are projected to total 1,562 Bcf, which is 94 Bcf below the five-year (2010-14) average.
- **Prices** - Spot prices are expected to remain relatively low, but are anticipated to rise slightly with winter heating demand. Futures prices for February 2015 delivery (for the five-day period ending November 6) averaged $4.19/MMBtu, which is higher than last year's February 2014 futures year ($3.57/MMBtu).

- ***by Johanna M. Bell, IPUC Staff Analyst***

Intermountain Gas	Residential	Commercial	Industrial	Transportation[6]	Total
2013 Customers[7]	295,639	31,401	17	104	327,161
% of Total	90.36%	9.60%	0.01%	0.03%	100%
2012 Customers[8]	283,228	30,114	11	110	313,463
2013 Therms Sold (millions)[7]	230.8	117.85	4.8	278.94	632.39
% of Total	36.50%	18.64%	0.76%	44.11%	100%
2012 Therms Sold (millions)[8]	202.29	100.97	3.46	277.13	583.85
2013 Revenue ($ millions)[7]	$174.98	$81.15	$2.30	$9.90	$268.33
% of Total	65.21%	30.24%	0.86%	3.69%	100%
2012 Revenue ($ millions)[8]	$162.14	$73.33	$1.80	$8.49	$245.76

Avista Corporation	Residential	Commercial	Industrial	Transportation	Total
2013 Customers[7]	67,518	8,525	94	8	76,145
% of Total	88.67%	11.20%	0.12%	0.01%	100%
2012 Customers[8]	66,731	8,489	94	8	75,322
2013 Therms Sold (millions)[7]	47.31	27.25	2.22	42.70	119.48
% of Total	39.60%	22.81%	1.86%	35.74%	100%
2012 Therms Sold (millions)[8]	46.17	26.63	2.29	43.47	118.56
2013 Revenue ($ millions)[7]	$44.86	$21.31	$1.46	$0.44	$68.07
% of Total	65.90%	31.31%	2.14%	0.65%	100%
2012 Revenue ($ millions)[8]	$45.42	$21.75	$1.54	$0.41	$69.12

Questar Gas	Residential	Commercial	Industrial	Transportation	Total
2013 Customers[7]	1,835	233	0	0	2,068
% of Total	88.73%	11.27%	0.00%	0.00%	100%
2012 Customers[8]	1,773	227	0	0	2,000
2013 Therms Sold (millions)[7]	1.45	0.96	0	0	2.41
% of Total	60.09%	39.91%	0.00%	0.00%	100%
2012 Therms Sold (millions)[8]	1.26	0.78	0.00	0.00	2.04
2013 Revenue ($ millions)[7]	$1.16	$0.65	$0.00	$0.00	$1.82
% of Total	64.04%	35.96%	0.00%	0.00%	100%
2012 Revenue ($ millions)[8]	$1.02	$0.53	$0.00	$0.00	$1.55

[6] Purchased transmission only (natural gas from others).

[7] January 1, 2013 – December 31, 2013

[8] October 1, 2011 – September 30, 2012

Intermountain Gas PGA is up for second year after five years of consecutive decreases

Case No. INT-G-14-01, Order No. 33139

(Sept.26, 2014) – The Commission approved an Intermountain Gas Company application to increase rates 2.64% effective Oct. 1 as part of its annual Purchase Gas Cost Adjustment (PGA).

The PGA mechanism is used to adjust rates up or down to reflect changes in Intermountain's costs for buying natural gas from its suppliers and other related expenses that vary from year to year. Money collected in the PGA cannot be used in increase company earnings, shareholder dividends or employee salaries.

Each year on Oct. 1, rates for Intermountain Gas's 331,000 customers in 74 southern Idaho communities go up or down depending on annual changes to wholesale market gas prices, transportation and storage costs.

This is the second year the PGA has been an increase, following five years of decreases.

Residential customers who use natural gas for both space and water heating will see an average increase of $1.89 per month while those who use natural gas only for space will pay about $1.40 more per month.

The commission's staff of auditors, analysts and engineers thoroughly reviewed the company's gas purchases and verified that the PGA increase will not change company earnings and that the company's costs were prudently incurred and necessary to serve customers.

Despite increased production from shale reserves in North America, there was an increase in demand for natural gas nationwide due to a rebounding economy and increased use of natural gas for electric generation. Last year's cold weather in the eastern United States put upward pressure on prices and put a significant dent in natural gas storage levels. Also, the company faced increased transportation costs from Williams Northwest Pipeline, the company that owns Intermountain's major transportation pipeline.

To offset the size of this year's PGA, the company passed through to customers a $3.9 million increase in revenue as a result of providing its pipeline capacity to other wholesale gas marketers or natural gas companies. It also passed along to customers $405,411 in revenue earned from selling liquefied natural gas from its above-ground LNG plant near Nampa. The LNG was also used to meet customers' peak-day needs.

Commission staff's investigation confirmed that the company properly hedged against higher prices by purchasing gas when prices were lower and storing it for use later when prices are higher.

The variable portion of gas rates covered by the PGA increases from 37.3 cents per therm to 39.5 cents. The PGA represents a significant portion of the total per therm price paid by customers, about 72.6 cents in the winter and 76 cents in the summer for customers who use natural gas for space and water heating. The amount above the PGA portion includes those fixed costs of serving customers that don't change from year to year as does the PGA.

Avista customers getting gas rate decrease

AVU-G-14-04, Order No. 33160

(Oct. 31, 2014) – Natural gas rates for customers of Avista Utilities decrease by 2.1 percent effective Nov. 1.

The variable portion of electric and gas rates go up or down every year based on the previous year's variable costs to serve customers. The annual Purchased Gas Cost Adjustment (PGA) varies according to changes in wholesale market prices for gas and transportation and storage expense.

Avista's decrease in its PGA is a total $1.6 million. The decrease to an average-sized residential or small-commercial customer will be about $1.16 per month. Rates for large-commercial customers decrease by about 2.5%, though rates for a large interruptible customer increase by 0.2%.

Avista's commodity cost for natural gas actually increased during the last year due in part to a colder-than-normal winter last year. However, that colder weather led to more use of natural gas by Avista customers, resulting in higher natural gas revenue that offset the higher commodity cost.

Avista will "hedge" about 35% of its estimated gas requirements for this PGA year, which means the company buys excess natural gas when market prices are lower and then stores it for use when market prices are higher.

Company earnings do not increase or decrease with the yearly electric Power Cost Adjustment (PCA) or the natural gas yearly adjustment. The commission directed Avista to promptly file an application to amend the PGA should gas prices materially deviate from the amount approved in this order.

Avista customer demand remains low for natural gas

AVU-G-14-03, Order No. 33129

(Nov. 21, 2014) – The Commission weas still taking comments at year's end from Avista Utilities' northern Idaho customers regarding its long-range plan to meet customer demand for natural gas over the next 20 years. The company's Integrated Resource Plan (IRP) is updated every two years.

Customer demand remains low, thus Avista does not anticipate a need to acquire additional resources beyond what it already provides. Demand is down due partly to the recession, while the availability of natural gas increases because of the abundant supply of shale gas. The company anticipates an annual growth in customer demand of only 0.7% annually.

However, there are enough uncertainties regarding future natural gas supply and price that the company's plan outlines a number of scenarios and how it would respond to each one. The uncertainties that could impact demand for natural gas include 1) the amount of liquefied natural gas (LNG) exports, 2) the market for natural gas vehicles and 3) the amount of increased natural gas that may be needed for electric generation.

Existing and new LNG facilities are looking to export low-cost North American gas to higher-priced Asian and European markets, the Avista IRP states. In Canada, 16 LNG export projects are in various stages of permitting and there are two proposed terminals in Oregon. "LNG exporting has the potential to alter the price, constrain existing pipeline networks, stimulate development of new pipeline resources, and change flows of natural gas across North America," the IRP states.

Avista claims it has a diversified portfolio of gas supply resources, including contracts to buy gas from several supply basins, stored gas and firm capacity rights on six pipelines.

The company's identifies a number of steps it will take in its "action plan," to address future concerns:

- Monitor demand for indications of deviations from expected growth and provide a report twice yearly to commission staff on forecasted customer growth and use per customer as compared to actual growth.
- Continue to monitor supply-side resource trends including the availability and price of natural gas to the region, LNG exports, Canadian natural gas supply and consumption, and the availability of storage infrastructure.
- Meet regularly with commission staff to provide information on market activities and significant changes in the IRP's assumptions or natural gas procurement practices.