NATURAL GAS

Consumption and prices decline in 2015

In Idaho, natural gas is supplied to customers by Avista Corporation, Dominion Questar Gas (formerly 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.

Individual Idaho Gas Utility Profiles

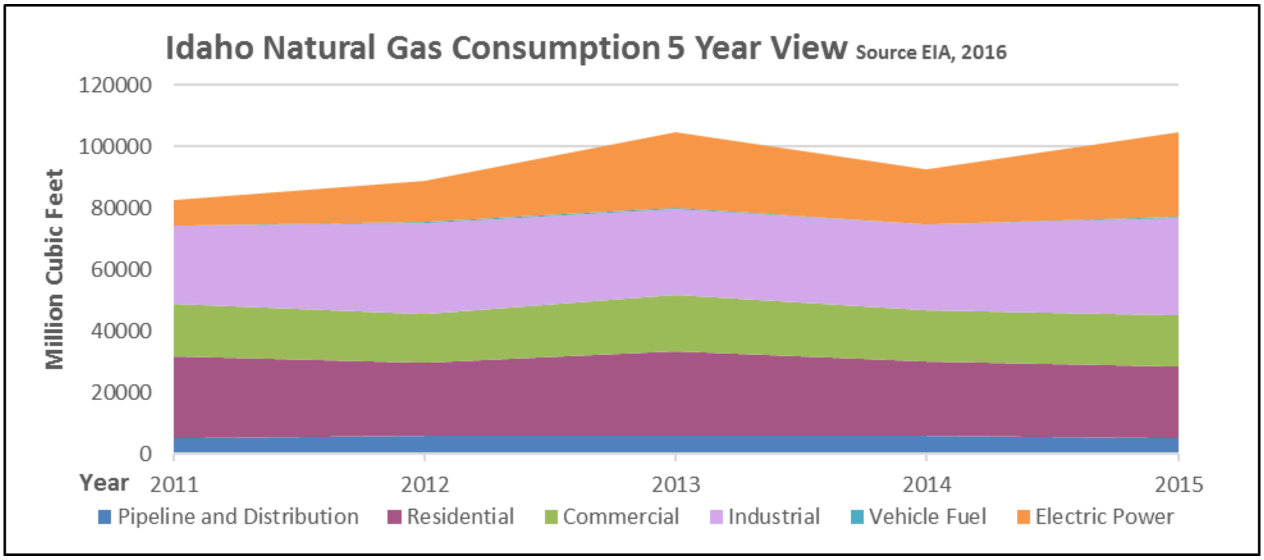
2015 Statistics	Total	Residential	Commercial	Industrial	Transportation[10]
Intermountain Gas					
Customers	**338,251**	**306,026**	**32,106**	**18**	**101**
% of Total	100%	90.47%	9.49%	0.01%	0.03%
Therms (millions)	700.6	200	103	5.7	276.9
% of Total	100%	34.43%	17.64%	0.83%	55.92%
Revenue (millions)	$247.30	$160.40	$74.20	$3.00	$9.70
% of Total	100%	64.86%	30.00%	1.21%	3.92%
Avista Corporation					
Customers	**79,398**	**70,481**	**8,817**	**92**	**8**
% of Total	100%	88.77%	11.10%	0.12%	0.01%
Therms (millions)	113.92	42.01	25.33	2.07	44.51
% of Total	100%	36.88%	22.23%	1.82%	39.07%
Revenue (millions)	$61.90	$40.28	$19.78	$1.37	$0.44
% of Total	100%	65.10%	31.97%	2.21%	0.71%
Questar Gas					
Customers	**2,135**	**1,887**	**248**	**0**	**0**
% of Total	100%	88.38%	11.62%	0%	0%
Therms (millions)	2.11	1.12	0.91	0	0
% of Total	100%	56.74%	43.26%	0%	0%
Revenue (millions)	$1.80	$1.11	$0.69	$0.00	$0.00
% of Total	100%	61.54%	38.46%	0%	0%

Consumption

Regional consumption rates in all customer segments were lower than anticipated and are projected to slightly decline in 2016.[11] Overall consumption declined 2.9 percent for the residential segment. Commercial increased

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

slightly while industrial consumption grew 13.1 percent. Consumption for electric generation grew by 55.5 percent and is driving overall load growth[12].



A number of factors could increase demand for natural gas:

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

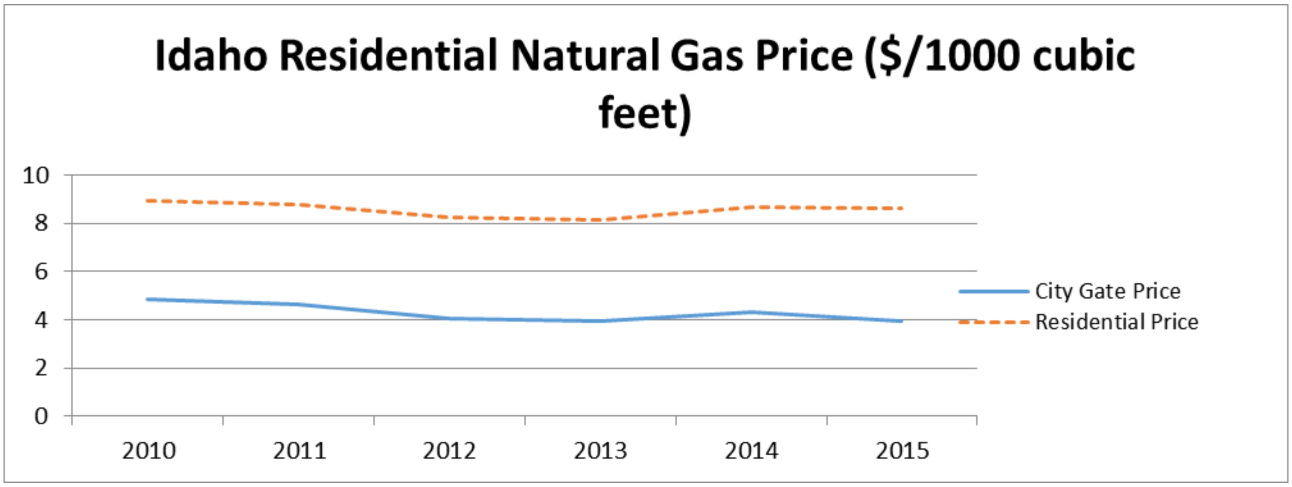
Prices

Natural gas spot prices are projected to decline in 2016 to an average of $2.36/Dth (dekatherm[13]), which is 25.32 percent lower than the 2015 average of $3.16/Dth.

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

- North American economic growth.
- The rate of natural gas for exports, electric generation, industrial and transportation uses.
- Regulatory costs that add to the cost of accessing, producing or transporting natural gas.
- Advances in production tools and technologies.

[11] NWGA 2016 Gas Outlook
[12] EIA (Energy Information Administration)
[13] Dekatherm = 10 Therms or 1,000,000 British thermal units (MMBtu)



Summary

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

-by Kevin Keyt, IPUC Staff Analyst

GAS CASES

Intermountain Gas seeking 4% base rate increase

Case No. INT-G-16-02, Order No. 33593

September 9, 2016 – On Aug. 12, Intermountain Gas filed an application with the commission to increase its base rate an average 4 percent, or about $10.2 million. It is the first Intermountain Gas base rate case since 1985. *(A decision in the rate case had not made by the time this annual report was published.)*

If the full base rate request were granted, a residential customer who uses the company's average of 747 therms per year and uses natural gas for space and water heating, would experience an increase of about $2.31 per month. A residential customer who uses natural gas only for space heating would see an increase of about $1.16 per month. Commercial customers' monthly increase would be about $12.16. These numbers do not include the reduction in variable rates that would occur if the company's PGA application were granted.

Intermountain Gas, which serves about 334,650 customers in 75 communities across southern Idaho, says the base rate increase is needed because of increased operating costs to meet customer growth, the need to replace customer service information and technology systems, and increased costs related to pipeline safety regulations and compliance.

Since its last rate case in 1985, the number of Intermountain Gas residential customers has increased from 85,400 to more than 300,000. In the same period, the number of commercial customers has increased from 13,300 to nearly 32,000. While more customers increase sales revenue, they also require more investment in non-revenue generating infrastructure such as pipeline expansion and replacement and customer care systems and information technology, Intermountain Gas claims.

The commission's staff of auditors, engineers and attorneys are in the midst of a six-month investigation of Intermountain's application. The commission, by state law, cannot accept or deny the requested increase without first considering the evidence. State law requires that regulated utilities be allowed to recover their prudently incurred expenses and earn a reasonable rate of return, which is also established by the commission.

Intermountain Gas is requesting a 9.9 percent return on equity and an overall rate of return of 7.42 percent. The burden of proof is on the utility to demonstrate that its additional capital investment is necessary to serve customers and if those expenses are prudently incurred. Commission decisions can be appealed to the state Supreme Court by either the utility or customer groups.

Another issue in the case is Intermountain Gas' proposal to create demand side management (DSM) programs to help customers reduce natural gas consumption. One of those programs would provide rebates to customers who install high-efficiency natural gas equipment and ENERGY Star certified homes.

Natural gas utilities, like electric utilities, are sometimes discouraged from enacting programs to help customers reduce consumption because they depend on sales to meet their fixed costs of operating. In recent years, more efficient building code standards and appliances have resulted in customers using less natural gas, thus reducing the margin the company relies on to pay for fixed costs such as expanding or replacing its pipeline distribution system.

To address the financial disincentive to encourage conservation and the reduced fixed cost recovery, Intermountain Gas is proposing to implement a Fixed Cost Collection Mechanism (FCCM) – similar to Idaho Power's Fixed Cost Adjustment – that ensures stability in revenues regardless of how much natural gas customers use. The company claims the yearly rate adjustment would allow Intermountain Gas to effectively promote DSM programs without the financial disincentives that currently exist.

Hefty natural gas supply results in lower PGA

Case No. INT-G-16-03, Order No. 33604

October 4, 2016 – Gas rates for the 335,000 southern Idaho customers of Intermountain Gas Company decreased an average 7.1 percent on Oct. 1 following regulators' approval of the company's annual Purchased Gas Cost Adjustment (PGA).

Every Oct. 1, the variable portion of Intermountain Gas rates is adjusted upward or downward by the Idaho Public Utilities Commission to reflect changes in the company's costs to buy natural gas from its suppliers and also changes in transportation, storage and other variable costs.

Significant supplies of North American shale gas and substantial gas storage balances were the major factors contributing to lower gas supply costs for the company. In an effort to further stabilize prices, the company entered into various fixed-price agreements to lock in the price of its underground storage and other winter gas supply.

As a result, residential customers who use natural gas for both space and water heating will see a reduction of about $3.48 per month, while residential customers who use natural gas just for space heating will receive about a $2.03 monthly reduction. For commercial customers, the decrease is about $14.23 monthly.

Intermountain's weighted average cost of gas, or WACOG, is reduced from 32.8 cents per therm to 29.7 cents. The WACOG represents just under half of a residential customer's overall rate.

The other half of customer rates are primarily fixed costs. While the PGA addresses just variable costs, fixed costs are addressed in base rate cases. Intermountain Gas currently has an application before the commission to increase its base rates by an average 4 percent. (Case No. INT-G-16-02). That case will likely be decided by next March. It is the first Intermountain Gas base rate case since 1985.

Avista gas rates decreasing an average 7.8 percent

Case No. AVU-G-16-02, Order No. 33637

October 28, 2016 – The commission approved Avista Utilities' application to decrease the variable portion of natural gas rates by 7.8 percent effective Nov. 1.

The variable portion of Avista rates, which is about 50 percent of the total overall rate on a customer bill, is adjusted every year to account for changes in Avista's costs to buy natural gas as well as changes in transportation, storage and other related costs. Because these costs are based on always changing market conditions, the forecasted rate is adjusted every year to match actual cost.

The average residential or small commercial customer will see a decrease of about $4.65 per month as a result of Avista's annual Purchased Gas Cost Adjustment (PGA).

The decrease is primarily attributable to a reduction in natural gas commodity costs due to a warmer than normal 2015-16 winter, an abundance of natural gas in storage and continued high production levels of natural gas.

During years when natural gas prices are lower than that already included in rates, customers get a one-year credit. When market prices are higher than included in rates, customers get a one-year surcharge. Neither an increase nor a decrease to the PGA impacts Avista's earnings.

Convenience fee for Avista customers going away

Case No. AVU-E-16-01, AVU-G-16-01, Order No. 33494

April 1, 2016 – A $3.50 convenience fee paid by residential customers of Avista Utilities will soon be going away. The fee is charged by a third-party vendor when Avista electric or natural gas customers pay their bills online or by telephone.

Avista received approval from the commission to process the online and telephonic payments on its own, something the utility says it can do for as little as $1.50 per transaction.

According to Avista, the convenience fee is "one of the largest frustrations" expressed by the utility's growing number of customers who pay electronically or by telephone. Only about 38 percent of customers mailed in payments in 2015, with the rest paying online or over the telephone.

Avista serves about 125,000 electric and 80,000 natural gas customers in northern Idaho.

Avista estimates it will cost about $195,000 per year to process the payments for its Idaho electric customers and $120,000 per year for natural gas customers. Avista will defer and record the costs it incurs to process the payments for possible inclusion in a later rate case. It will also file a report with the commission every six months detailing program expense and customer participation levels.

The utility has also received approval in its Washington and Oregon jurisdictions to eliminate the fee.

PUC updates contract with Utah commission for natural gas service in Franklin County

Case No. QST-G-16-01, Order No. 33496

April 21, 2016 – The commission approved an updated contract with the Utah Public Service Commission that allows the Utah panel continued jurisdiction over Questar Gas Company's service to customers in Franklin County, Idaho.

Questar, headquartered in Salt Lake City, has about 900,000 customers in Utah, southwestern Wyoming and Franklin County, Idaho (where it has about 2,000 customers).

Questar provides natural gas service to the communities of Preston and Franklin in Franklin County. In 2015, Questar's service territory was expanded to include the community of Dayton and all of Franklin County.

Because of the county's proximity to Utah and the small number of customers involved, the Idaho PUC and the Utah commission entered into an agreement in 1990 giving Utah the authority to set rates and customer service regulations for Questar's Idaho customers.

Under the agreement, Idaho customers have full rights of participation before the Utah commission, including the opportunity to pursue service-related issues against the company. Rates, charges and service regulations for Idaho customers must be no less favorable than those in Utah. Idaho Code §61-505 allows the Idaho commission to contract with regulatory agencies of neighboring states to set rates and charges for customers in Idaho located in or nearby border communities who are served by utilities that are "principally" located in neighboring states.

The 1990 agreement has been updated, in part, because of a proposed merger between Questar and Virginia-based Dominion Resources. If the merger is approved by the Utah and Wyoming commissions, the company will change its name to Dominion Questar Gas. Existing rates and regulations will not be changed as a result of the proposed merger.

The commission noted that is "impractical" and not in the public interest for the Idaho commission to regulate a utility principally located in Utah with such a small Idaho customer base. However, Idaho maintains pipeline safety supervision over Questar facilities inside Idaho.

The agreement between the Idaho and Utah commissions will be automatically renewed each year on April 1 subject to termination by either commission upon written notice.