Idaho Natural Gas Utilities

The Idaho Public Utilities Commission regulates two natural gas utilities – Intermountain Gas Company and Avista Utilities. Questar Gas, based in Salt Lake City, provides service to a small number of customers in southeast Idaho, but since its Idaho service area is very small, Idaho has elected to allow the Utah Public Service Commission to regulate that utility's activities in Idaho.

Intermountain Gas supplies natural gas to southern Idaho, serving about 280,000 customers. Avista Utilities, which also serves parts of Washington and Oregon, serves northern Idaho where it has about 68,250 customers.

When natural gas reached Idaho communities in the 1950s, Idaho local distribution companies received natural gas from the Northwest Pipeline Company of Salt Lake City. The pipeline serves much of the Pacific Northwest, connecting the San Juan Basin and other Southwest natural gas sources with the Northwest and Canada. Today the pipeline also transports Canadian natural gas from Alberta and British Columbia to U.S. customers in the Pacific Northwest and California.

Natural gas markets, after two years of volatility in 2004 and 2005, stabilized somewhat during 2006, recovering from the impacts of hurricanes in 2005. However, the primary driver of high prices is that demand has increased faster than supply in recent years.

Natural gas prices in Idaho have traditionally been lower than those in most of the U.S. due to the lack of sufficient transportation for Rocky Mountain and Canadian supplies, which serve Idaho, to major markets. In the past decade, completion of major pipelines connecting Idaho's natural gas sources to those major markets has reduced this price advantage and subjected Idaho customers to the same gas price increases and volatility as felt in the rest of North America.

Idaho Statewide Natural Gas Statistics by Utility

	Intermountain	**Avista**	**Questar**	**Total**
Total customers	277,738	68,240	4,737	350,715
% of total	79.19	19.46	1.35	100.00
Therms Sold (millions)	507.07	114.83	1.78	623.68
% of total	81.30	18.41	0.29	100.00
Annual Revenue (millions)	$341.42	$85.08	$1.87	$428.37
% of total	79.70	19.86	0.44	100.00

Individual Utility Statistics

Intermountain Gas Company

	Residential	Commercial	Industrial	Transportation	Total
Customers	251,734	25,891	11	102	277,738
% of Total	90.637	9.322	0.004	0.037	100.00
Therms (millions)	191.80	97.59	2.86	214.82	507.07
% of Total	37.825	19.246	0.564	42.365	100.00
Revenue (millions)	$222.01	$106.86	$2.56	$9.99	$341.42
% of Total	65.025	31.3	0.75	2.926	100.00

Avista Utilities

	Residential	Commercial	Industrial	Transportation	Total
Customers	60,507	7,625	99	9	68,240
% of Total	88.67	11.17	0.15	0.01	100.00%
Therms (millions)	42.99	25.04	2.484	44.3	114.827
% of Total	37.45	21.81	2.16	38.58	100.00
Revenue (millions)	$53.175	$28.443	$2.548	$0.918	$85.08
% of Total	62.50	33.43	2.99	1.08	100.00

Questar Gas

	Residential	Commercial	Industrial	Transportation	Total
Customers	3,175	1,561	1	0	4,737
% of Total	67.03	32.95	0.02	0.00	100.00
Therms (millions)	1.087	0.623	0.073	0.00	1.784
% of Total	60.93	34.95	4.12	0.00	100.00
Revenue (millions)	$1.175	$0.626	$0.065	$0.00	$1.866
% of Total	62.95	33.54	3.51	0.00	100.00

Intermountain Gas rates decline 4 percent

Case No. INT-G-06-04, Order No. 30137

Intermountain Gas customers received a 4 percent decrease effective Oct. 1 due to falling wholesale market prices for natural gas and the company's gas purchasing and storage strategies.

> **What is the WACOG?**
> The WACOG (Weighted Average Cost of Gas) is the average price a gas utility estimates it will need to acquire the gas it needs for the upcoming year. It is based on anticipated demand and the forecasted market price for gas supply for the upcoming year. Also included in the calculation is a true up of last year's forecast to actual prices.

The commission approved Intermountain Gas' annual purchased gas cost adjustment (PGA), which resulted in a monthly decrease of about $2.77 for the average residential customer using natural gas for both space and water heating. A customer using natural gas for space heating only received a monthly decrease of about $1.85 and commercial customers got an average $16.58 monthly decrease.

Intermountain Gas applied on Aug. 16 for a Weighted Average Cost of Gas (WACOG) of about 72.4 cents per therm, down from its current 73.2 cents per therm. Then on Sept. 20, due to a further softening in the wholesale market, the company amended its WACOG to 68.5 cents per therm

It is the first time in four years the PGA has resulted in a credit to customer bills rather than a surcharge. Annual adjustments to the PGA, whether a surcharge or a credit, do not increase or decrease company earnings. Money collected from a surcharge goes directly into a deferral account to pay Intermountain's wholesale gas suppliers. A decrease is credited directly to customers. The PGA, which represents over half the total customer bill, is intended to reflect the costs Intermountain Gas incurs acquiring natural gas to serve its approximate 275,000 southern Idaho customers.

The disruption of gas supply in the Gulf of Mexico caused by hurricanes Katrina and Rita, which occurred soon after the company filed last year's PGA, caused large spikes in the cost of wholesale gas. The high prices and volatility that occurred as a result of those price spikes were included in the company's deferral account. However, the company was able to take advantage of its storage options (Intermountain provides about 60 percent of its winter gas sales from storage) and made favorable gas purchases when the price was low. Both of those actions enabled the company to seek a lower WACOG. Unfortunately, Intermountain is not able to buy all its gas when prices are low because of physical limits on transportation and storage. Consequently, the WACOG is based more on a full year's view of wholesale gas prices rather than just when prices are at the lowest.

The WACOG also includes an anticipated increase in the company's pipeline expenses due to proposed price increases from both the Northwest Pipeline Corporation and Gas Transmission Northwest. Intermountain estimated the dollar impact of the pipeline cost increase would be $11.3 million during the 2006-07 PGA year. Commission staff recommended that the commission reserve the right to reopen any approved tariffs should the pipeline increase be less than what the company included in its application. The commission also directed Intermountain Gas to come before the commission again before the winter heating season if forward prices materially deviate for the current WACOG.

Intermountain plan anticipates 4 percent growth

Case No. INT-G-06-03, Order No. 30159

The Idaho Public Utilities Commission in November accepted a five-year growth plan submitted by Intermountain Gas Co., but asked the company to provide more information in future documents.

Regulated gas and electric utilities are required to file Integrated Resource Plans or IRPs, to keep the public and the commission apprised of utilities' plans to meet the demands of growth. The plans, however, are only a guideline. Acceptance of the plans does not necessarily mean the commission will approve all the plan's projects when they come before the commission for ratemaking treatment.

Intermountain Gas serves about 275,800 customers in southern Idaho. The Boise-based distributor has customers in 74 communities. Its system includes more than 10,000 miles of transmission, distribution and service lines. In fiscal year 2005, more than 446 miles of distribution and service lines were added to accommodate growth. The plan, which anticipates demand for 2007-11, anticipates a 4 percent customer growth rate in its southern Idaho territory during that period.

Commissioners said the company did not provide enough information regarding the relationship between its demand forecast and the cost-effectiveness of its conservation programs.

The commission said that IRPs filed by utilities are "not meant to be merely an academic or regulatory exercise, but a showing to the public that the company has prepared for, and has considered, a multitude of scenarios. We expect each company submitting an IRP to vigorously test each assumption used in its plan to ensure that the results of the IRP reflect the changing markets and demand, and Intermountain is no exception."

The commission said Intermountain Gas fulfilled most of the IRP requirements and "we appreciate the company's attention to and efforts regarding those requirements. For certain requirements, however, we find that the company did not apply the same rigor."

Future IRPs should include more details about the models used by the company to forecast demand, including more details about economic factors, customer classes, customer use over seasons rather than only annual use, and a range of natural gas price forecasts using more than one credible source.

Further, the company should summarize the cost-effectiveness of its conservation, or demand-side management (DSM) programs, including those not selected for implementation.

"The commission's philosophy regarding DSM has been clearly stated in its orders – it strongly supports the development and implementation of DSM measures and wants natural gas utilities in Idaho to investigate and implement cost-effective measures that improve energy efficiency," the commission said.

Many of the company's customers are served directly off the Williams Northwest Gas Pipeline that comes into southeastern Idaho from Wyoming and generally follows the Snake River in southern Idaho.

However, Intermountain owns several laterals that come off the main Williams pipeline. The three largest are the Idaho Falls, Sun Valley and Canyon County laterals.

The Idaho Falls Lateral, which serves many cities between Pocatello north to St. Anthony, will reach a peak day delivery deficit during 2007 and will increase thereafter if adjustments aren't made such as "looping," which is increasing capacity by adding a parallel pipe alongside existing pipelines. The company also plans to ask its industrial customers that have the potential to cut their peak consumption by switching to fuel oil to do so during extreme cold temperatures. The Idaho Falls lateral serves 15 percent of the company's customers and represents 18 percent of the company's total winter delivery.

The company anticipates peak day delivery deficits by 2009 in the Sun Valley Lateral where there are 4 percent of the customers and 4 percent of winter send-out. Unlike the Idaho Falls Lateral, the industrial load, mainly related to tourism, does not permit switching to alternative fuels. Therefore, the company believes that future upgrades will be needed to the existing pipeline system.

The Canyon County Lateral, which represents 14 percent of the company's customers and 13 percent of winter sendout, will experience delivery deficits beginning in 2007 under current conditions. The industrial base there also does not permit fuel switching. Intermountain Gas is exploring optional means of enhancing distribution capability in that region.

The commission commended Intermountain Gas for revising its IRP to refine its plans to mitigate or eliminate projected capital improvements needed to meet projected distribution deficits. The commission said it welcomed the fact that Intermountain "had conducted some early research that shows that new technology may allow the company to delay certain expensive pipeline upgrades in areas of the system."

Overall decrease in Avista gas rates effective Nov. 1.

Case No. AVU-G-06-03, Order No. 30168; Case No. AVU-G-06-04, Order No. 30167

The Idaho Public Utilities Commission approved two changes to gas rates for Avista Utilities customers that became effective Nov. 1. The net result of the two rate adjustments is a decrease of about 2 percent in natural gas rates. Avista serves about 300,000 natural gas customers in three Western states, including 65,000 in northern Idaho.

The first filing, AVU-G-06-03, reduces by 3.4 percent Avista's annual Purchased Gas Cost Adjustment (PGA). The PGA reflects changes in the wholesale market price for natural gas. The second filing, AVU-G-06-04, is a 1.4 percent increase to the company's Energy Efficiency Tariff.

On Sept. 14, Avista applied to increase the PGA surcharge by 3.2 percent, seeking a weighted average cost of gas (WACOG) of 84.7 cents per therm, up from the current 78.6 cents. On Sept. 29, Avista revised its application, seeking a WACOG of 76.24 cents per therm, a 3.4 percent reduction from the current WACOG. The revised WACOG was based on declining wholesale prices for natural gas and the company's hedging practices.

"Although lowering the WACOG carries with it the potential of creating a large deferral balance subject to collection from customers in the future if prices turn out to be higher than forecasted, the company has already been able to take advantage of recent sharp drops in forward natural gas prices and has hedged approximately an additional 20 percent of its forecasted load at lower prices," the commission said. The company hedges by buying ahead natural gas at a fixed price. "We are confident that the company will continue to take advantage of lower prices when the opportunity arises within their established risk management policy."

The energy efficiency tariff is used to pay for conservation programs that help customers respond to increasing natural gas prices. The rider, which was set at 0.5 percent of retail rates, has not increased since 2001. The rider raised about $300,000 a year, but the company has budgeted $720,000 in demand-side management (DSM) expenses for 2007. The new tariff rider will generate about $1.44 million in Idaho to recover a balance expected to reach $1.25 million by the end of this year. The company estimates that the 1.4 percent increase – bringing the total rider up to 1.75 percent of a customer's total bill – will erase the deficit by the end of the second quarter of 2008.

With the use of energy efficiency programs, Avista hopes to reduce the demand for natural gas by about 1,062,000 therms a year, four times the goal originally established by the program. The programs include those to increase efficiency in appliances, in HVAC systems and at industrial sites.

Commission accepts Avista Gas IRP

Case No. AVU-G-06-02, Order No. 30101

The commission accepted Avista Utilities' gas plan to serve its 68,000 northern Idaho customers. Avista also has customers in Washington and Oregon, totaling 297,000 natural gas customers. Avista projects a 4 percent growth rate.

Avista has a diversified portfolio of natural gas supply resources, including owned and contracted storage, firm capacity rights on six pipelines and contracts in place to purchase natural gas from several supply basins.

To respond to the volatility in natural gas markets, Avista said it will procure a portion of its supply as much as three years in advance. Most gas utilities procure no more than one year in advance. Avista plans to purchase one-third of its supply with rolling three-year contracts that will require replacement of 11 percent of its supply with new three-contracts each year.

Avista will also offer conservation and efficiency programs. In Washington and Idaho, demand-side management programs are targeted to reduce demand by more than 1,062,000 therms in the first year. In Oregon, the programs will reduce demand by 441,000 therms in the first year.

Avista conducted a series of six public meetings, inviting a broad spectrum of customers to provide input on its long-range plan.