

Idaho Natural Gas Utilities

Natural gas commodity costs have continued to decrease over the last couple years. Breakthroughs in drilling technology such as horizontal drilling and hydraulic fracturing have unlocked vast reserves of shale gas, making prices less sensitive to off-shore hurricane activity.

Shale gas accounts for nearly 20 percent of the current U.S. natural gas supply and is expected to make up 50 percent of U.S. natural gas supply by 2035.¹

Supply in the Northwest is primarily split between two basins, the Western Canadian Sedimentary Basin and the U.S. Rocky Mountain Basin. According to the Northwest Gas Association (NWGA), both basins are expected to continue increasing production, particularly the Horn River and Montney shale plays in northeast BC, and the Niobrara shale play in the Rockies.²

Nationally, the Energy Information Administration (EIA) expects overall natural gas consumption to decrease slightly in 2013 when compared to the growth rate this year. Even though residential and commercial consumption is expected to increase in 2013, the demand for natural gas by the electric power industry is expected to decrease from this year's record high.

The Northwest Gas Association (NWGA) expects eastern Washington and northern Idaho residential, commercial, and industrial consumption to increase during 2012-2013 when compared to 2011-2012. However, overall consumption in the region is expected to decline during this same period because of lower natural gas usage by the electric power industry.

Conversely, the NWGA expects overall demand for natural gas to increase in southern Idaho because of increased consumption from industrial customers and the electric power industry. Over the next 10 years, the NWGA expects demand in the Northwest region to increase at an average annual growth rate of 0.9 percent, with most of the growth expected in the residential sector.

There are several changes that could impact natural gas prices moving forward, including: 1) the impact of increased regulation on production practices, 2) the shifting of investment from dry gas production to more economical natural gas liquids (NGL) production, 3) the pace of economic recovery, 4) the adoption of natural gas as a fuel for generating electricity, 5) the adoption of natural gas as an alternative to petroleum based fuels in the transportation and industrial sectors, 6) the changing of natural gas flows across regions; and 7) the benefits of exporting domestic liquid natural gas (LNG) to overseas markets. – *by Matt Elam, utilities analyst.*

¹ U.S. Energy Information Administration (EIA) – 2012 Annual Energy Outlook – Early Release Jan 23, 2012.

² Northwest Gas Association – 2012 Gas Outlook

Individual Utility Idaho Statistics – 9/30/2011 to 9/30/2012

Intermountain Gas Company

| | Residential | Commercial | Industrial | Transportation | Total |
|--------------------------------|--------------------|-------------------|-------------------|-----------------------|--------------|
| Customers | 283,228 | 30,114 | 11 | 110 | 313,463 |
| % of Total | 90.35% | 9.61% | 0.00% | 0.04% | 100.00% |
| 2011 Customers | 280,072 | 29,836 | 10 | 107 | 310,025 |
| Therms (millions) | 202.29 | 100.97 | 3.46 | 277.13 | 583.85 |
| % of Total | 34.65% | 17.29% | 0.59% | 47.47% | 100.00% |
| 2011 Therms (millions) | 216.00 | 109.05 | 2.87 | 233.70 | 561.62 |
| Revenue (millions) | \$162.14 | \$73.33 | \$1.80 | \$8.49 | \$245.76 |
| % of Total | 65.97% | 29.84% | 0.73% | 3.45% | 100.00% |
| 2011 Revenue (millions) | \$184.30 | \$87.52 | \$1.64 | \$8.26 | \$281.72 |

Avista Utilities

| | Residential | Commercial | Industrial | Transportation | Total |
|--------------------------------|--------------------|-------------------|-------------------|-----------------------|--------------|
| Customers | 66,731 | 8,489 | 94 | 8 | 75,322 |
| % of Total | 88.59% | 11.27% | 0.12% | 0.01% | 100.00% |
| 2011 Customers | 66,200 | 8,421 | 96 | 8 | 74,725 |
| Therms (millions) | 46.17 | 26.63 | 2.29 | 43.47 | 118.56 |
| % of Total | 38.94% | 22.46% | 1.93% | 36.66% | 100.00% |
| 2011 Therms (millions) | 48.16 | 27.92 | 2.04 | 45.56 | 123.68 |
| Revenue (millions) | \$45.42 | \$21.75 | \$1.54 | \$0.41 | \$69.12 |
| % of Total | 65.71% | 31.47% | 2.23% | 0.59% | 100.00% |
| 2011 Revenue (millions) | \$48.06 | \$23.57 | \$1.51 | \$0.44 | \$73.58 |

Questar Gas

| | Residential | Commercial | Industrial | Transportation | Total |
|--------------------------------|--------------------|-------------------|-------------------|-----------------------|--------------|
| Customers | 1,773 | 227 | 0 | 0 | 2,000 |
| % of Total | 88.65% | 11.35% | 0.00% | 0.00% | 100.00% |
| 2011 Customers | 1,767 | 227 | 0 | 0 | 1,994 |
| Therms (millions) | 1.26 | 0.78 | 0.00 | 0.00 | 2.04 |
| % of Total | 61.79% | 38.21% | 0.00% | 0.00% | 100.00% |
| 2011 Therms (millions) | 1.35 | 0.81 | 0.00 | 0.00 | 2.17 |
| Revenue (millions) | \$1.02 | \$0.53 | \$0.00 | \$0.00 | \$1.54 |
| % of Total | 65.94% | 34.06% | 0.00% | 0.00% | 100.00% |
| 2011 Revenue (millions) | \$1.13 | \$0.58 | \$0.00 | \$0.00 | \$1.71 |

Case No. INT-G-11-03, Order No. 32450
February 2, 2012

Rates decline again for Intermountain Gas customers

The commission approved an Intermountain Gas Company application to decrease the variable portion of its rates by an average 4.5 percent effective Feb. 1.

Natural gas prices continue to decline for various reasons, the commission said. "Supply is abundant due to new drilling technologies and pipeline infrastructure. Record quantities of stored gas also exist, and there has been no material hurricane activity that might otherwise interfere with delivery." The commission said it appreciates the company's prompt application to decrease its rates in the face of falling natural gas prices.

At least once each year, Idaho's electric and gas utilities submit a cost adjustment that tracks the costs of power and gas supply that vary from year to year. While base rates represent primarily fixed costs of providing natural gas or electricity and do not change unless there is a rate case, the annual Purchased Gas Cost Adjustment (PGA) for gas companies and Power Cost Adjustment (PCA) for electric companies results in temporary surcharges or credits that reflect variable costs. Increases or decreases in the PGA or PCA do not impact company earnings positively or negatively.

Effective Feb. 1, the portion of rates that covers natural gas supply and transportation would decline from 45.35 cents per therm to 41.8 cents. That represents about half the total summer residential rate of 86 cents per therm and winter residential rate of 75 cents.

This is Intermountain Gas Company's fifth consecutive request for a reduction in natural gas rates. The company serves about 312,000 customers in 74 communities across southern Idaho.

Case No. INT-G-12-01, Order No. 32653
October 1, 2012

Customers will pay about 7.1 percent less in Intermountain Gas bills

Intermountain Gas Company customers received their sixth consecutive decrease in gas rates effective today due to a decline in the cost of gas the company buys for its customers and increased gas supply.

The decrease will come in two components: a reduction in monthly bills effective today as a result of the lower price of gas and a one-time bill credit in December. Combined, those adjustments result in a decrease of 7.1 percent for the average customer.

The yearly Purchased Gas Cost Adjustment (PGA) projects gas prices for the next 12 months and either surcharges or credits customers the difference between the projection and the actual cost. Sometimes the PGA is adjusted more than once a year if gas prices materially change.

The variable portion of customer rates is based on the Weighted Average Cost of Gas or WACOG, which makes up about half a customer bill. With this application, the WACOG drops from 41.8 cents per therm to about 33.5 cents per therm, as low as it has been since 2002. The WACOG represents about half the total customer bill, which is now about 66.8 cents per therm during the winter months and 70.2 cents from April through November for a customer who uses natural gas for both space and water heating. For that customer, the average bill will decrease by about \$1.51 per month. A customer who uses natural gas for just space heating will see a decrease of about 17 cents per month. A commercial customer will see about a \$6.46 per month decrease.

In addition to the \$6 million price reduction as result of lower gas prices, a one-time credit totaling \$11.9 million will be included on customers' December bill. For residential customers who use natural gas for both space and water heating the one-time credit will be about \$29.85. Residential customers who use natural gas for space heating only will receive a credit of about \$19.40. The average December credit for commercial customers is about \$129.80.

The commission said the credit will help customers during a time of year when natural gas bills are highest. "Instead of embedding the value of the credit in rates throughout the coming year, the single credit method will allow customers more immediate rate relief during a time period when natural gas usage is typically nearing its peak."

There are several other significant factors in the overall reduction: 1) \$3.7 million in benefits generated by release of some pipeline transportation capacity, 2) \$4.8 million attributable to the collection of pipeline capacity costs, a true-up of expenses from the 2011 PGA and capacity release credits and 3) a \$1.3 million deferred credit balance, which is the difference from the commodity costs Intermountain actually paid for natural gas and the WACOG that was included in rates.

The commission did give the company authority to surcharge customers for Lost and Unaccounted for Gas, which reduced the total credit allowed customers by \$2 million.

Case No. AVU-G-12-01, Order No. 32471
February 29, 2012

Avista gas rates decline March 1 with WACOG adjustment

The commission accepted an application by Avista Utilities to adjust the variable portion of its natural gas tariff from 41.8 cents per therm to 36.2 cents, reducing an average residential customer's bill by about \$3.46 per month, or about 5.7 percent. Large commercial customers' rates will decrease by about 7.3 percent. The rate change becomes effective March 1.

Avista serves about 120,000 electric and natural gas customers in northern Idaho.

The commission approved the application without the full 30-days' notice required for rate changes and accompanying public comment period so that customers may more immediately benefit from the decrease.

Natural gas utilities file a Purchased Gas Cost adjustment (PGA) at least once a year. The PGA varies largely due to market conditions. (Electric utilities annually file a similar Power Cost Adjustment (PCA) that reflects the variable component of power supply costs.) Increases or decreases to rates as a result of the PGA or PCA do not impact company earnings.

The commodity portion of a natural gas bill is called the WACOG, or Weighted Average Cost of Gas. The commission directs the gas utilities it regulates to amend their WACOG if gas prices materially deviate from the currently approved commodity price. Commission staff compared Avista's proposed WACOG to the Natural Gas Exchange and New York Market Exchange's futures prices for basins from which Avista gets its gas and believes lowering the WACOG is reasonable.

The WACOG is a significant portion of a customer's total bill. Beginning March 1, the WACOG will be 36.2 cents of a residential customer's rate of 85.9 cents per therm. The non-WACOG portion of the 85.9 cents per therm represents costs that are fixed, such as capital investment in infrastructure and operations and maintenance. An Avista residential and small commercial customer uses an average 62 therms per month.

The commission commended the company for promptly seeking to amend its WACOG as market conditions changed.

September 27, 2012

Case No. AVU-G-12-05, Order No. 32651

Case No. AVU-G-12-03 and -06, Order No. 32650

Gas decreases effective for Avista customers on Oct. 1

Northern Idaho customers of Avista Utilities are getting reductions to their natural gas bills effective Oct. 1.

The commission approved three Avista applications that reduce rates largely due to declining natural gas prices. Combined, rates for natural gas customers decrease by about 5.6 percent.

The largest decrease (about 3 percent) comes from Avista's annual Purchased Gas Cost Adjustment (PGA). Costs associated with providing gas supply for customers vary from year to year as the wholesale price of natural gas and transportation-related expenses change. Natural gas utilities in Idaho file a PGA at least yearly to account for those changing prices. Overall, prices today are lower than they were in 2011. Consequently, the company will reduce by \$2.14 million the amount it collects in its PGA account. Another \$1.55 million of an un-refunded credit balance will be used to offset a potential rate increase next April. Avista has filed a notice with the commission to file a combined electric and natural gas base rate case on or after Oct. 10 for proposed new rates that, if adopted, would be effective in April.

A second gas rate decrease (2.6 percent) is attributable to the temporary suspension of programs to fund natural gas efficiency programs.

Lower natural gas prices due to changing gas supply now make it cost ineffective for Avista customers to invest in natural gas energy efficiency programs. Consequently, the commission has approved Avista's

application to temporarily suspend its gas efficiency programs while still meeting its contractual obligations for agreements executed before Sept. 1, 2012. Customers who qualify for rebates associated with the programs will have until Nov. 1 to send all required rebate forms to the company.

As a result of the company's proposal to temporarily suspend gas efficiency programs, the company will zero-out the rider that funds those programs. Residential and small-commercial customers now pay about 2.7 cents per therm for gas efficiency programs. There will still be about \$390,000 in the account to fund the efficiency programs and the rider will continue to be collected through Oct. 1. Avista will work with commission staff to determine the most appropriate method to refund customers the remaining \$390,000.