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IDAHO PUBLIC
UTILITIES COMMISSION

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December 29, 2009

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
Statehouse Mail
W. 472 Washington Street
Boise, Idaho 83720

AVU-G-09-06

Dear Ms. Jewell:

RE: Avista Utilities 2009 Natural Gas Integrated Resource Plan

Per IPUC's Integrated Resource Plan Requirements outlined in Case No.U-1500-165, Order No. 22299, Case No.GNR-E-93-1, Order No. 24729 and Case No.GNR-E-93-3, Order No. 25260 , Avista Corporation d/b/a/ Avista Utilities, hereby submits for filing an original, an electronic copy and 7 copies of its 2009 Natural Gas Integrated Resource Plan.

The Company submits the IRP to public utility commissions in Idaho, Washington and Oregon every two years as required by state regulation. The Company has a statutory obligation to provide reliable natural gas service to customers at rates, terms and conditions that are fair, just, reasonable and sufficient. The IRP, by identifying and evaluating various resource options and establishing a plan of action for resource decisions, is a significant component in meeting this obligation.

The 2009 Plan highlights the following:

- Our philosophy is to reliably provide natural gas to our customer with an appropriate balance of price stability and prudent cost using our portfolio of purchase contracts, storage and firm pipeline capacity rights;

- The Company forecasts sufficient natural gas resources well into the future with resource needs not occurring until 2018-2019 in Oregon and 2022-2023 in Washington and Idaho;

- The major change from the 2007 IRP is a lower demand forecast driven by lower economic growth in our service territories;

- We continue our pursuit of cost effective demand-side management solutions establishing a 2010 goal to reduce demand by 2,193,000 therms in Washington and Idaho and 303,000 therms in Oregon; and

- As forecasted demand is relatively flat, we will monitor actual demand for signs of increased growth which could accelerate resource needs.

Please direct any questions regarding this report to Greg Rahn at (509) 495-2048.

Sincerely,

Linda Gervais

Linda Gervais
Manager, Regulatory Policy
State and Federal Regulation
Avista Utilities
509-495-4975
linda.gervais@avistacorp.com

c: Matt Elam

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2009

Natural Gas Integrated Resource Plan

December 31, 2009

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Note: Appendices provided under separate cover.

SAFE HARBOR STATEMENT

This document contains forward-looking statements. Such statements are subject to a variety of risks, uncertainties and other factors, most of which are beyond the Company's control, and many of which could have a significant impact on the Company's operations, results of operations and financial condition, and could cause actual results to differ materially from those anticipated.

For a further discussion of these factors and other important factors, please refer to the Company's reports filed with the Securities and Exchange Commission which are available on our website at www.avistacorp.com. The Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events.

2009 IRP KEY MESSAGES

- Avista has a diversified portfolio of existing natural gas supply resources including owned and contracted storage, firm capacity rights on six pipelines and purchase contracts from several different supply basins. Our philosophy is to reliably provide natural gas to customers with an appropriate balance of price stability and prudent cost.
- Avista's 2009 Integrated Resource Plan (IRP) forecasts lower demand for all service territories than our 2007 plan. These reductions are driven mainly by lower growth rates in our service territories than originally anticipated as a result of the severe economic downturn during this IRP cycle.
- Additional resource needs do not occur until well into the future. In Oregon, resource deficits occur in 2018-2019 and in Washington and Idaho in 2022-2023. The deficits are driven primarily by demand growth averaging 1.4 percent and 1.0 percent per year in the respective jurisdictions. Customer accounts are expected to grow at an annual average rate of 2.5 percent and 2.2 percent, respectively. Our plan indicates incremental pipeline transportation capacity is the preferred resource to meet the identified needs.
- An important risk with the identified future resource deficits is the relatively flat slope of forecasted demand growth. Implied in this outlook is existing resources will be sufficient for quite some time to meet demand. However, should demand growth accelerate, the steepening of the demand curve could quickly accelerate resource shortages by several years. This "flat demand risk" requires that we closely monitor signs of accelerating demand and carefully evaluate lead times to acquire preferred incremental resources.
- Other risks we evaluated include price elasticity variability, climate change policy uncertainty, long-term availability of supply, weather planning standard alternatives and cost escalation risks/lead times when acquiring resources.
- Conservation programs are an integral component of our IRP process, as these programs result in multiple benefits including reduced customers' bills, reduced supply-side resource needs and reduced greenhouse gas (GHG) emissions. Avista's long-time commitment to energy conservation and efficiency is founded in the belief that these benefits make acquiring cost effective conservation resources the single best strategy for minimizing energy service costs to our customers while promoting a cleaner environment.
- We have identified first-year conservation goals of 2,193,300 therms for our North Division (Washington and Idaho) and 303,300 therms for our South Division (Oregon).
- The IRP identifies and establishes an Action Plan that continues to guide us toward the risk-adjusted, least-cost method of providing service to our natural gas customers. Included in this Action Plan are efforts to improve price elasticity modeling, monitor trends for Canadian natural gas imports, and goals for demand-side management.

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LIST OF ACRONYMS

AGA	American Gas Association
DSM	Demand-Side Management*
Dth	Dekatherm*
EIA	Energy Information Administration
FERC	Federal Energy Regulatory Commission*
GTN	Gas Transmission Northwest*
GHG	Greenhouse Gas
HDD	Heating Degree Day*
HP	High Pressure
IRP	Integrated Resource Plan*
LNG	Liquified Natural Gas*
Mmbtu	Million British Thermal Units*
NOAA	National Oceanic and Atmospheric Administration*
NPCC	Northwest Power and Conservation Council*
NWP	Williams - Northwest Pipeline*
NYMEX	New York Mercantile Exchange*
Psig	Pounds per Square Inch Gauge*
PVRR	Present Value Revenue Requirement
TAC	Technical Advisory Committee*
TRC	Total Resource Cost
Triple E	External Energy Efficiency Board
WCSB	Western Canadian Sedimentary Basin

* Glossary contains additional information.

CHAPTER 1 – EXECUTIVE SUMMARY

Avista's 2009 Natural Gas Integrated Resource Plan (IRP) identifies a strategic natural gas resource portfolio that meets future customer demand requirements. The formal exercise of bringing together customer demand forecasts with comprehensive analyses of resource options, including supply-side resources and demand-side measures, is valuable to Avista, its customers, Regulatory Commissions and other stakeholders for long-range planning.

The IRP identifies and establishes an Action Plan to steer Avista toward the least-cost method of providing service to our natural gas customers. There are other factors that must be considered besides cost within the context of least-cost planning, including an assessment of risks associated with each alternative as well as environmental and regulatory issues. Actions resulting from the IRP process represent risk-adjusted, least-cost results, which we refer to as best cost/risk resources.

IRP PROCESS AND STAKEHOLDER INVOLVEMENT

The IRP is a coordinated effort by several Avista departments along with input from our Technical Advisory Committee (TAC) which includes Commission Staff, peer utilities, customers and other stakeholders. This group is a vital component of our IRP process, as it provides a forum for idea exchange that communicates multiple perspectives, identifies issues and risks and improves analytical methods. Topics discussed include natural gas demand forecasts, demand-side management (DSM), supply-side resources, computer modeling tools and distribution planning. The end result is an integrated resource portfolio designed to serve our customers' natural gas needs well into the future while balancing cost and risk.

PLANNING ENVIRONMENT

This IRP was developed during a two-year period in which an international credit crisis severely disrupted the United States and global economy. Long-term effects on the natural gas industry are uncertain, prompting us to consider a wider range of scenarios to evaluate and prepare for a broad spectrum of potential outcomes. We examined key assumptions and historical trends, questioning how they might be impacted by the economic environment which is ambiguous, fluid and evolving. We have sought to perform analysis and modeling that not only looks at "what happened?" but also asks "what if?" to understand possible outcomes. Over time, as more becomes known about this uncertain period, some of our scenarios may differ substantially from subsequent actual results. Nonetheless, the trade-off of examining a broad range of possibilities with stretched assumptions is preferable to a narrower analysis of more-likely outcomes that could completely miss a less probable future.

DEMAND FORECASTS

For this IRP, we define eight demand areas, which are structured around the transportation resources that serve them. These demand areas are aggregated into four service territories (Washington/Idaho, Medford/Roseburg, Oregon, Klamath Falls, Oregon and La Grande, Oregon) and further summarized into two divisions (North and South) for presentation throughout this IRP.

Avista's approach to demand forecasting focuses on customer growth and use per customer as the base components of demand. We recognize and have accounted for weather as a fundamental demand-influencing factor as well. We also studied other factors that influence demand including population, employment trends, age and income demographics, construction trends, conservation technology, new uses development (e.g. natural gas vehicles) and use per customer trends.

Recognizing customers adjust consumption in response to price, we also analyzed factors that influence natural gas prices and demand through price elasticity. These included unconventional natural gas production trends, climate change policies and legislation, Canadian import trends, potential drilling restrictions and alternate price forecasts.

We developed a historical based reference case and conducted sensitivity analysis on key demand drivers by varying assumptions to understand how demand changes. Using this information and incorporating input from the TAC, we formed several alternate demand scenarios for detailed analysis. Table 1.1 summarizes these scenarios, which do not represent the maximum bounds of possible cases, but frame a broad range of potential outcomes. Within this range, we define an Expected Case which we view as the most likely scenario.

Table 1.1 Alternate Demand Scenarios
Expected Case
High Growth, Low Price
Low Growth, High Price
Green Future
Alternate Weather Standard
Supply Constraints

Avista uses the IRP process to develop two primary types of demand forecasts – annual average daily and peak day. Annual average daily demand forecasts are useful for preparing revenue budgets, developing natural gas procurement plans and preparing purchased gas adjustment filings. Peak day demand forecasts are critical for determining the adequacy of existing resources or the timing for new resource acquisitions to meet our customers' natural gas needs in extreme weather conditions. The demand forecasts from the Expected Case revealed:

Annual Average Daily Demand — Average day, system-wide core demand is projected to increase from an average of 96,160 dekatherms per day (Dth/day) in 2009-2010 to 117,660 Dth/day in 2028-2029. This is an annual average growth rate of 1.1 percent and is net of projected conservation savings from DSM programs[1].

Peak Day Demand — Coincidental peak day, system-wide core demand is projected to increase from a peak of 365,720 Dth/day in 2009-2010 to 474,670 Dth/day in 2028-2029. Forecasted non coincidental peak day demand peaks at 341,850 Dth/day in 2009-2010 and increases to 440,630 Dth/day in 2028-2029, a 1.3 percent compounded growth rate in peak day requirements. This is also net of projected conservation savings from DSM programs.

Figure 1.1 shows forecasted system-wide **annual average daily demand** for the six main scenarios modeled over the planning horizon.

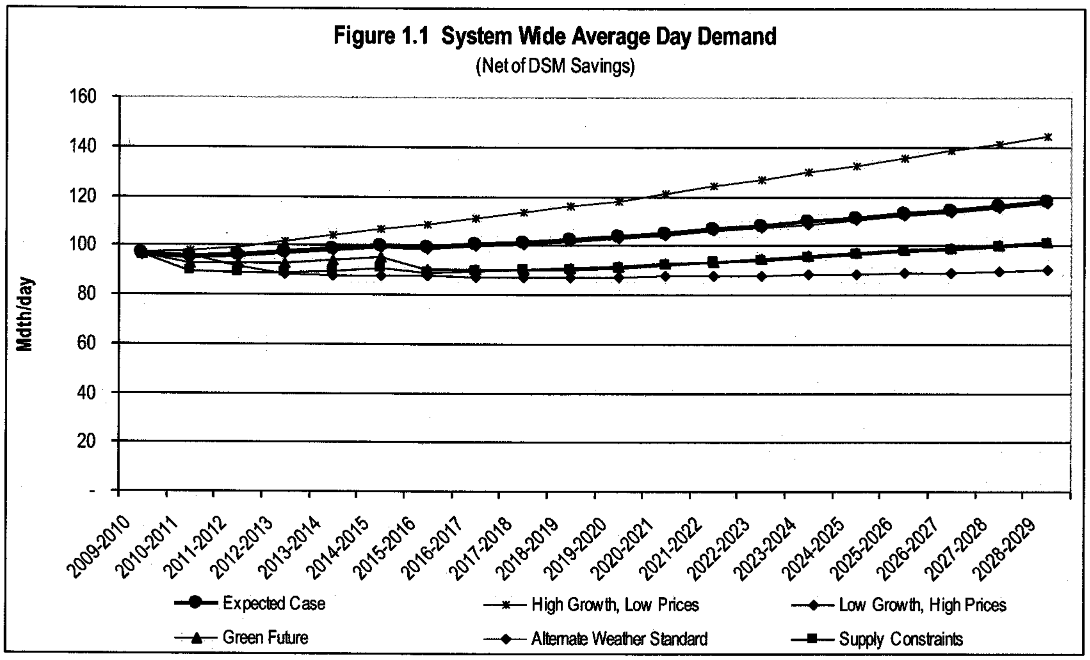

Figure 1.2 shows forecasted system-wide **peak day demand** for the six main scenarios modeled over the planning horizon.

[1] Appendix 3.9 shows gross demand, DSM savings, and net demand.