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VIA: Electronic Mail

August 31, 2011

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

RE: Avista Utilities 2009 Natural Gas IRP Update, Case No. AVU-G-11-02, Order 32233

Dear Ms. Jewell:

Pursuant to Order No. 32233 in Case No. AVU-G-11-02, Avista Utilities submits a update to the 2009 Natural Gas Integrated Resource Plan (IRP).

Additionally we have included our 2012 Washington Natural Gas IRP Work Plan for reference. A hard copy is being provided via overnight mail.

If you have any questions regarding this filing, please contact Kelly Irvine at 509-495-4353 or Kevin Christie at 509-495-2001.

Sincerely,

/s/ Linda Gervais

Linda Gervais
Manager, Regulatory Policy
State and Federal Regulation
Avista Utilities
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cc: Matt Elam

**Avista Corporation
2009 Natural Gas Integrated Resource Plan Update
Idaho Update – August 31, 2011**

1. SUMMARY UPDATE

Pursuant to Order No. 32233 in Case No. AVU-G-11-02, the Company submits the following demand update to its 2009 IRP.

Since the time the 2009 IRP was filed the Company has not noted any significant variances in actual demand relative to forecasted demand nor do we anticipate any near term significant changes in demand forecasts or resource needs.

Actual demand in our Idaho and Washington service territories has trended at or slightly below our plan's Expected Case which had forecasted near term slow demand growth heading into the most recent economic recession. We anticipate this weak demand trend will continue in the near term given a still sluggish economy plagued by continued economic woes on a national and international level. Unemployment rates are still high and construction activity is anemic in the residential housing and commercial building sectors. Accordingly, our first identified resource needs in Idaho and Washington currently look to occur within and possibly after the timetable identified in the Expected Case in our 2009 plan (winter 2022-2023).

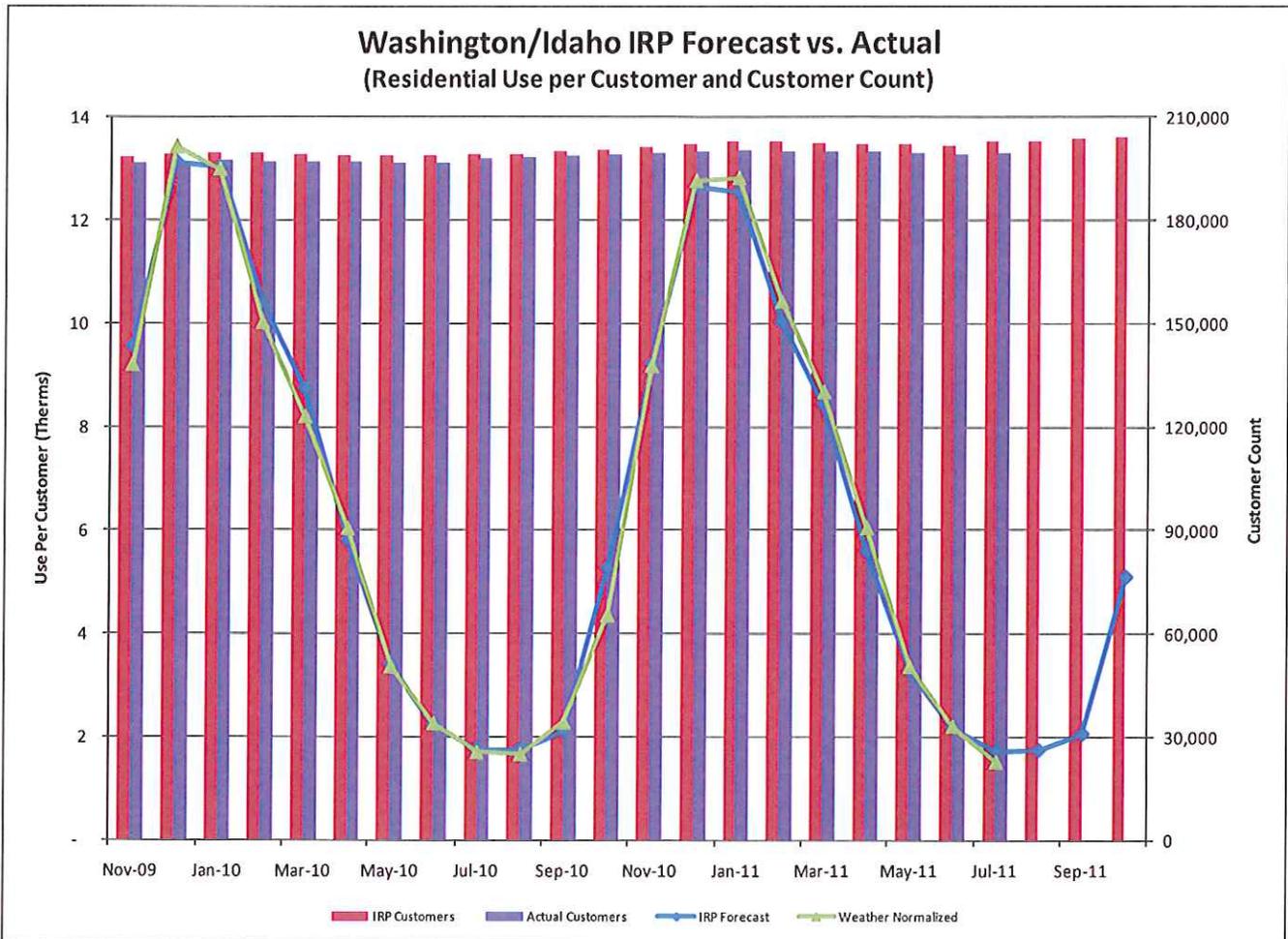
However, as identified in our 2009 plan, the relatively flat slope of forecasted demand growth implies existing resources will be sufficient for quite some time but should demand growth accelerate, the steepening of the demand curve could quickly accelerate resource shortages by several years. This "flat demand risk" requires that we closely monitor signs of accelerating demand and carefully evaluate lead times to acquire preferred incremental resources.

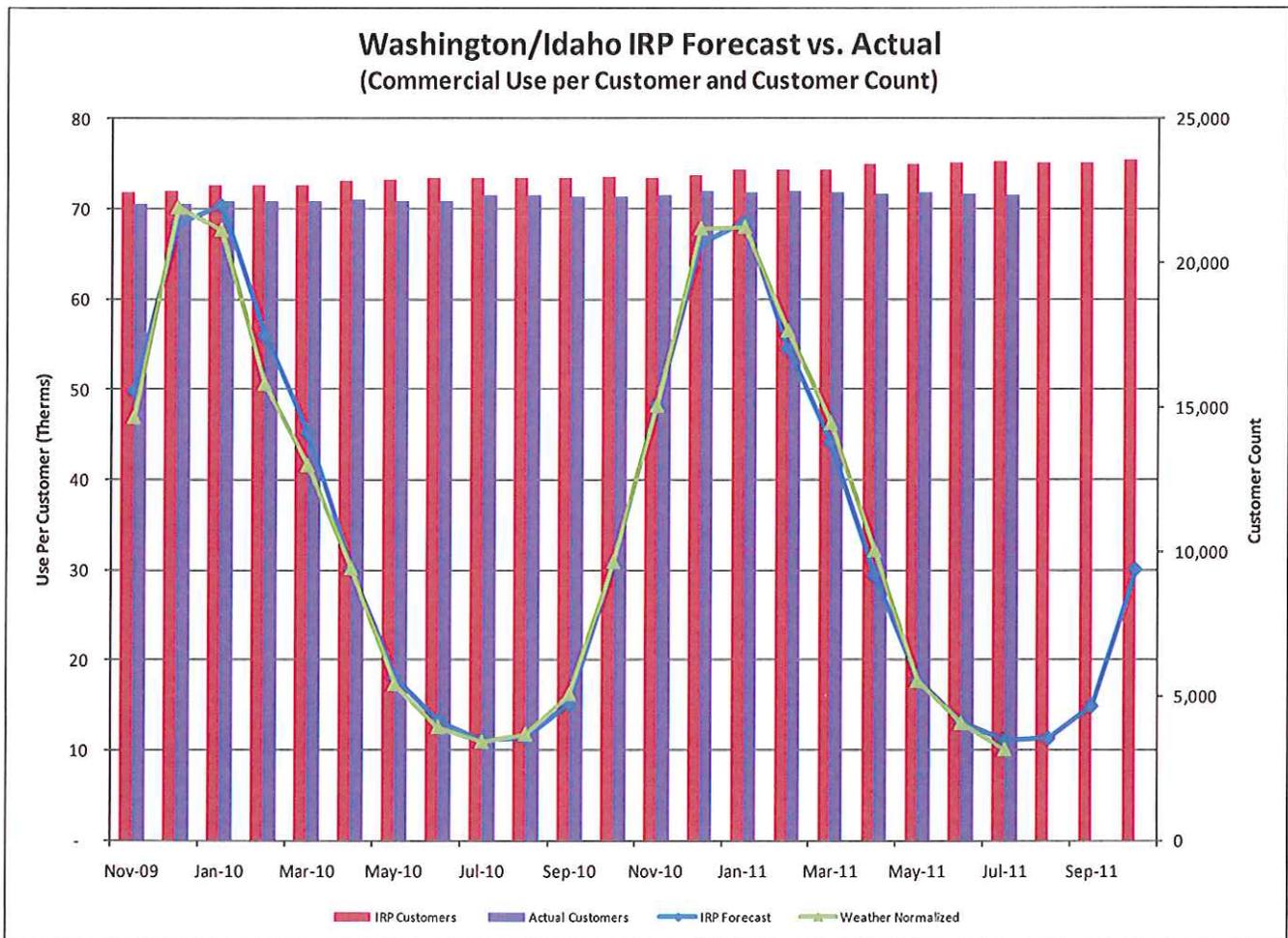
There have been no expiration of any transportation resource contracts nor have we engaged in any significant new supply-side resource acquisitions since plan acknowledgement. As modeled in our 2009 IRP, in May of 2011 additional capacity and deliverability from the Jackson Prairie storage facility was returned to Avista from Shell Energy North America. We have not made substantial changes to our commodity procurement plan practices as outlined in our acknowledged IRP.

In the following sections, we will further elaborate on updates since our plan's acknowledgement, and our insights into emerging planning issues for the 2012 plan.

2. ACTUAL vs. FORECASTED DEMAND

The following charts compare 2009 IRP forecasts to actual results for customer counts and use per customer (weather normalized) for Idaho and Washington residential and commercial customers:





Actual customer counts have trended at or slightly below our Expected Case in the 2009 IRP. Use per customer (weather normalized) has also generally trended at or below expectations. We continue to monitor demand trends closely noting continued near term weakness consistent with the muted economic recovery in the region with no indications of accelerating demand growth near term.

3. ACTUAL vs. FORECASTED DSM GOALS

Avista's 2009 IRP identified Idaho DSM first year savings target of 650,763 therms for 2010. The 2010 externally third party verified gross savings were 452,646 therms. We note that two factors contributed to throughput and maintained participation levels in spite of challenging macroeconomic conditions:

- American Recovery and Reinvestment Act (ARRA) funds available for low income weatherization
- Significant federal tax credits for high efficiency equipment and weatherization

We continue to pursue cost-effective demand side solutions however, we expect 2011 to be a challenging year due to the lack of similar stimulus funding and tax credits going forward combined with still subdued near term expected macroeconomic conditions. We are currently reviewing other approaches to minimize the adverse impact of a difficult economy upon the adoption of energy-efficiency measures. One consideration is to identify customers through mining of utility and non-utility databases to target and encourage immediate action and the installation of multiple measures. The

Company will monitor program activity in order to make adjustments in program design, as well as incentive levels, if results indicate a need.

EMERGING PLANNING ISSUES

The planning environment leading up to the 2009 IRP was filled with uncertainty. The shale gas revolution was just getting under way precipitating a dramatic drop in natural gas prices from a peak of over \$13 in summer 2008. The United States and global economy were in upheaval stemming from an international credit crisis. Climate change legislation was a hot topic on Capitol Hill with the primary debate not whether it would be implemented but rather when it would be implemented. With this backdrop of uncertainty, the focus of our plan was to analyze a wide range of potential outcomes.

While much has changed since the development of the 2009 IRP, much has stayed the same. The economy began to show signs of life; unfortunately the rebound was short lived. The downgrade of US treasuries followed by global economic aftershocks has people concerned this might be a repeat of 2008. Although it doesn't top the list of things to be addressed, the climate change debate has not gone away. Environmental concerns around shale gas are in the newspapers, magazines, movies, and TV. How the concerns are addressed and at what cost remain unknown.

Shale Gas

As we prepare for our next IRP, the game changing impacts of shale gas production looks to reshape numerous aspects of the industry. Foremost is a dramatically revised assessment of the amount of natural gas that can be economically produced, often at a lower cost than conventional natural gas production. This is achieved primarily as a result of economies of scale, near elimination of exploration risks and standardized, sophisticated production techniques that streamline costs and minimize the time from drilling to delivery to market. This change in production profile for shale gas could alter the price and volatility aspects of natural gas as production quickly responds to changing market conditions. This in turn could lead to numerous ripple effects such as longer term bilateral hedging transactions, new financing structures or vertical integration by utilities into natural gas reserves acquisition.

However, shale gas does not come free of controversy. Recently a series of articles in the New York Times questioned the size of the shale resource base and the ability to economically produce shale. These articles called shale a "giant Ponzi scheme" and warned that we may be in the midst of another "Enron moment". State and Federal agencies are looking into the environmental impacts of hydraulic fracturing. As a result of the environmental concerns exploration of natural gas in some areas has been halted. These controversies and the uncertainty around the issues could drive up costs and precipitate increased price volatility.

Shale gas production has also radically influenced the projected importation of LNG to the US and, at least temporarily, broken the link to global pricing. Numerous re-gasification terminals have been idled or cancelled while some facilities have sought approval for export authority (FERC just recently approved its first permit to export LNG from US). This also will likely have ripple effects on storage and transportation infrastructure. The Kitimat LNG terminal in northern British Columbia in particular could have far reaching implications on Pacific Northwest supply and prices due to increased competition for Canadian production by Asian markets. These are just some potential supply implications Avista will consider in its next IRP.

Demand

The United States and global economy are still looking for firm economic traction coming out of global recession. Recent events certainly have not provided the foothold people had hoped for and for now it seems that recovery is further down the road. The delayed recovery has dampened demand in all classes and the only anticipated bright spot comes from the hopes of increased gas usage for power generation.

Although not currently anticipated, compressed natural gas (CNG) vehicles and distributed electric generation are two areas that could propel increased new demand and warrant monitoring and scenario demand planning. Should natural gas benefit from a sustained relative energy price advantage, other incremental sources of demand could emerge. When and where this incremental demand might stress both supply and distribution infrastructure could create challenges not contemplated in past analyses.

Climate Change Legislation

One area of fallout from the recession was a reconsideration of the potential damaging economic implications climate change legislation could impose upon a still vulnerable economy. Consequently, climate change legislation is effectively suspended with an uncertain future. Prior to the recession, it was generally viewed that climate change legislation would be an advantage to natural gas fired generation relative to coal fired generation given its cleaner emissions and smaller carbon footprint. However, even without carbon legislation, the new lower natural gas price environment is making natural gas generation competitive with many coal plant facilities. The challenge is to assess whether significant additional gas demand for power will erode the current surplus production situation due to the shale boom. Correspondingly, once supply and demand rebalances, will there be upward pressure on prices as producers need to reach into their more expensive inventory?

Regional Infrastructure

In comparison to other parts of the country, the Pacific Northwest has significantly fewer pipeline options to bring supply from the producing basins to its various local service territories. Recent history (pre recession) shows that our regional supply infrastructure was strained prompting several new pipeline projects. For Avista, many of these pipeline projects did not facilitate bringing gas all the way to our service territory and were thus only a potential partial solution. As the recession began to impact regional demand, the need for these new pipelines waned. Should demand rebound quickly, the need could reassert itself again but with less time cushion to respond.



Avista Corporation 2012 Natural Gas Integrated Resource Plan Work Plan

IRP Work Plan Requirements

Section 480-90-238 (4), of the natural gas Integrated Resource Plan (“IRP”) rules, specify requirements for the IRP Work Plan:

Not later than twelve months prior to the due date of a plan, the utility must provide a work plan for informal commission review. The work plan must outline the content of the integrated resource plan to be developed by the utility and the method for assessing potential resources.

Additionally, Section 480-90-238 (5) of the WAC states:

The work plan must outline the timing and extent of public participation.

Overview

This Work Plan outlines the process Avista will follow to complete its 2012 Natural Gas IRP by August 31, 2012. Avista uses a public process to obtain technical expertise and guidance throughout the planning period via Technical Advisory Committee (TAC) meetings. The TAC will be providing input into assumptions, scenarios, and modeling techniques.

Process

The 2012 IRP process will be similar to that used to produce the previously published plan. Avista will use SENDOUT® (a PC based linear programming model widely used to solve natural gas supply and transportation optimization questions) to develop the risk adjusted least-cost resource mix for the 20 year planning period.

This plan will continue to include demand analysis, demand side management and avoided cost determination, existing and potential supply-side resource analysis, resource integration and alternative sensitivities and scenario analysis.

Additionally, Avista intends to incorporate action plan items identified in the 2009 Natural Gas IRP including more detailed demand analysis regarding use per customer, demand side management results and possible price elastic responses to evolving

economic conditions, an updated assessment of conservation potential in our service territories, consideration of alternate forecasting methodologies, and the changing landscape of natural gas supply (i.e. shale gas, Canadian exports, and US LNG exports) and its implications to the planning process. Further details about Avista's process for determining the risk adjusted least-cost resource mix is shown in Exhibit 1.

Timeline

The following is Avista's TENTATIVE 2012 Natural Gas IRP timeline:

- **August 31, 2011** – Work Plan filed with WUTC
- **January through April 2012** – Technical Advisory Committee meetings (exact meeting dates *subject to change*). Meeting topics will include:
 - Demand Forecast & Demand-Side Management – January 17
 - Distribution Planning & Supply/Infrastructure and Potential Case Discussion– February 21
 - SENDOUT® Preliminary Output Results and Further Case Discussion – March 20
 - SENDOUT® results – April 17
- **May 11, 2012** – Draft of IRP document to TAC
- **June 29, 2012** – Comments on draft due back to Avista
- **July 17, 2012** – TAC final review meeting (if necessary)
- **August 31, 2012** – File finalized IRP document

Exhibit 1: Avista's 2012 Natural Gas IRP Modeling Process

