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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S 2005-2009 INTEGRATED RESOURCE PLAN.	)))))))	**CASE NO. INT-G-04-1** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donovan E. Walker, Deputy Attorney General, in response to Order No. 29617, the Notice of Filing and Notice of Modified Procedure in Case No. INT-G-04-1 issued on October 26, 2004, and submits the following comments.

On April 30, 2004, Intermountain Gas Company (Company) submitted its Integrated Resource Plan (IRP) for the years of 2005-2009 to the Commission. According to the Company's IRP Executive Summary, the IRP is meant to describe the currently anticipated conditions over the five-year planning horizon, the anticipated resource selections, and the process for making those resource decisions. IRP at 1. Intermountain Gas is the primary distributor of natural gas in southern Idaho, and during fiscal year 2003 it served about 242,000 customers in 74 communities. *Id.* Its system contains approximately 9,500 miles of transmission, distribution, and service lines, with over 350 miles of those lines being added in fiscal year 2003 to accommodate new customer additions and to maintain service for the Company's growing customer base. *Id.*

STAFF ANALYSIS

Commission Order No. 25342 in Case No. GNR-G-93-2 initiated Integrated Resource Plan (IRP) requirements for local gas distribution companies (LDC) in accordance with amended Section 303 of the Federal Public Utility Regulatory Policy Act of 1978 (PURPA). In its Order the Commission listed the elements that the IRP should contain. The Commission twice modified the requirements for Natural Gas Integrated Resource Plans in:

- Order No. 27024 allowed Natural Gas Utilities to shorten the planning horizon to 5 years to match the Company's planning horizon and available market products.
- Order No. 27098 stated, "It is no longer a requirement that gas IRPs include formal evaluations of costs and benefits of potential DSM programs as they have been provided for in previous IRPs under the previous guidelines set forth in Case No. GNR-G-93-2 Order No. 24981. Instead, a general explanation with each IRP filing of whether there are cost effective DSM opportunities will be sufficient."

Staff has listed these elements and policy requirements below, and commented on how well the 2004 IRP filed by Intermountain Gas addresses each one.

01. Purpose and Process

No Staff Comments

02. Definition.

No Staff Comments

03. *Elements of Plan. Each gas utility shall submit to the Commission on a biennial basis an integrated resource plan that shall include:*

a. *A range of forecasts of future gas demand in firm and interruptible markets for each customer class for one, five, and twenty years using methods that examine the effect of economic forces on the consumption of gas and that address changes in the number, type and efficiency of gas end-uses.*

Staff believes the Company's IRP satisfies this requirement as amended by Order No. 27024 and Order No. 27098.

Intermountain Gas' IRP includes an extensive 25-year economic forecast for Idaho and the Company's service territories (IRP Exhibit 1). The Company uses the economic forecast information along with its Market Penetration Rates and Gas Market Conversion Rates to develop its 5-Year New Customer Forecasts, Adjustments and Total Customer Forecasts (IRP Exhibit 1). The following is a summary of the Company's residential and small commercial customer growth projections:

Residential and Small Commercial 5-Year Customer Growth Projections				
	Customer Projection Sept. 2004	Customer Projection Sept. 2007	Average Annual Customer Increase	Average Percentage Increase
Low Growth	258,261	297,152	7,778	2.80%
Baseline	258,261	308,607	10,069	3.55%
High Growth	258,261	316,670	11,682	4.06%

Although the Company's conversion rate[1] appears to be somewhat optimistic, Staff believes the forecasted growth projections fall within a reasonable range. Staff notes that the Company does not track water heater and space heater conversions separately and that migration from RS1 (space heat only) to RS2 (space and water heat) is not projected in the IRP. Furthermore, the Company no longer tracks gas appliance penetration yet it has indicated that there is anecdotal evidence of increased penetration of gas fireplaces, stoves, dryers, and barbeques.

b. *An assessment for each customer class of the technically feasible improvements in the efficient use of gas including load management, as well as the policies and programs needed to obtain the efficiency improvements.*

Staff believes the Company's IRP satisfies this requirement as amended by Order No. 27024 and Order No. 27098.

[1] Conversion rate is the percent of new customers that converted an existing structure to gas space or water heating. Projected conversion rates of up to 32% of all new customers are indicated under the base case scenario while the conversion rate was 15% in 2003.

Intermountain promotes the efficient use of natural gas through mass media advertisement, customer communication, marketing information, and the Company's website. Through these media outlets, the Company provides conservation information and encourages customers to consider high-efficient equipment when making their equipment purchase or upgrade decisions. Staff believes the Company has made significant improvements in this area and encourages the Company to continue to look for ways to improve demand side management opportunities.

The Company provides two ongoing equipment financing programs and contributes customer funds to the Gas Technology Institute. The Company provides a $200 rebate to customers that install a high-efficiency (90%) furnace when they convert their heating source from some other energy source. It also has an IGC Gas Equipment Financing Program through Wells Fargo Bank. However, while the Wells Fargo finance program will encourage gas consumption, there are neither requirements on equipment efficiency nor any added incentive to maximize energy efficiency.

The Company also continues to improve its Supervisory Control and Data Acquisition (SCADA) system, improving usage data for industrial customers. It continues to participate in the Rebuild Idaho energy efficiency campaign and is an active voice in Idaho's legislative process as the lawmakers consider new, higher-efficiency building and energy codes.

The Company further proposes two new programs to promote high-efficiency gas furnaces. The Company proposes involvement in the 2005 Parade of Homes focusing sponsorship on builders whose parade homes have a minimum of 90% efficient natural gas furnaces. The Company also proposes to collaborate with the Northwest Energy Efficiency Alliance Energy Star promotion of high-efficiency furnaces in the Pacific Northwest.

c. *An analysis for each customer class of gas supply options, including: (1) a projection of spot market versus long-term purchases for both firm and interruptible markets; (2) an evaluation of the opportunities for using Company-owned or contracted storage or production; (3) an analysis of prospects for Company participation in a gas futures market; and (4) an assessment of opportunities for access to multiple pipeline suppliers or direct purchases from producers.*

In comments filed in Case No. INT-G-03-1, Staff expressed concern regarding the Company's gas purchase strategies and its risk management practices recommending that the Company file a formal written risk management Policy with the Commission within 90 days.

Although the Company filed its risk management policy in September of 2003, Staff again expressed concern regarding the Company's gas purchase strategies in comments filed in Case No. INT-G-03-1 concluding that there is still: "no formal or systematic strategy in place". Staff recommended that the Company file "an enhanced [Risk Management] Policy and Procedure by December 20, 2004. In Order No. 29540, the Commission stated: "...$696,276 be reserved for future determination and possible adjustment pending the filing of risk management policies and procedures." The Company's filing is expected in December of 2004. Staff looks forward to review of that filing and a more formal discussion of the company's risk management program in subsequent integration resource plans.

d. A comparative evaluation of gas purchasing options and improvements in the efficient use of gas based on a consistent method for calculating cost-effectiveness.

Staff believes the Company's IRP satisfies this requirement as amended by Order No. 27024 and Order No. 27098.

The Company provides a general narrative discussion of available supply basins, transportation options, and storage resources. The IRP discusses reliability constraints and general cost causation factors involved in natural gas procurement. The Company discusses the many options available for supply, transportation, and storage along with the general decision criteria necessary to meet the supply needs of its customers.

The Company provides quantitative resource utilization analysis through its resource optimization model. Even though this model appears to properly evaluate the Company's existing resources, Staff believes that the shortened 5-year planning horizon biases the results toward existing contracts. The Company's model includes many alternative resources but because of existing contract constraints correctly built into the model there are very few realistic opportunities for change in the planning horizon. Furthermore, the model does not include an analysis of prospects for Company participation in gas futures markets. While Staff believes the resource model can properly evaluate the presented resources there is room for improvement. Staff believes that the model could include additional market alternatives by either removing some of the constraints on existing resources to observe alternative short-term results without existing resource bias or extending the planning horizon and enable the analysis of other purchase options beyond the existing resource bias. The resulting model output (IRP Exhibit 5 Appendix D and F as revised on September 14, 2004) is the basis of the Company's 5-year optimized integrated resource plan.

e. *The integration of the demand forecast and resource evaluations into a long-range (e.g., twenty-year) integrated resource plan describing the strategies designed to meet current and future needs at the lowest cost to the utility and its ratepayers.*

This section negated by Order No. 27024.

f. *A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the integrated resource plan.*

Staff believes the Company's IRP satisfies this requirement as amended by Order No. 27024 and Order No. 27098.

The Company's IRP is based on a 5-year plan for resource optimization and provides sufficient detail for short-run decisions. The Company's IRP utilizes existing resources and provides for additional supply by year five from additional first of the month priced firm contracts. The IRP further indicates a need for improvements in the Company's Idaho Falls and Sun Valley Transportation resources.

04. Relationship Between Plans. All plans following the initial integrated resource plan shall include a progress report that relates the new plan to the previously filed plan.

Staff believes the Company met this criterion. On September 28, 2004, the Company filed an extensive comparative analysis. The Company points out consistencies between the plans forecasting methodology. It also outlines the changes observed between the two plans i.e. a decline in industrial growth and significant growth on the Idaho Falls and Sun Valley laterals. The comparison also points out the enhanced conservation efforts outlined in the 2004 IRP.

05. Plans to Be Considered in Rate Cases.

Not applicable in this case.

06. Public Participation. In formulating its plan, the gas utility must provide an opportunity for public participation and comment and must provide methods that will be available to the public of validating predicted performance.

Staff believes the Company met this criterion. It held two public workshops during the development of the Integrated Resource Plan. The workshops were held on March 29, 2004 at Intermountain's office in Boise and on April 2, 2004 in Pocatello.

07. Legal Effect of Plan.

No Staff comments on this section.

STAFF RECOMMENDATION

Staff believes that Intermountain's 2004 IRP satisfies the technical requirements of Commission Order No. 25342 as modified by Order Nos. 27024 and 27098, and recommends acceptance for filing. Staff's recommendation should not be interpreted as approval of the plan, or as a judgment of the prudence of any transactions under taken as part of the plan.

Respectfully submitted this 16th day of November 2004.

Donovan E. Walker
Deputy Attorney General

Technical Staff: Michael Fuss
Lynn Anderson

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16TH DAY OF NOVEMBER 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-04-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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