

INTERMOUNTAIN GAS COMPANY

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IDAHO PUBLIC
UTILITIES COMMISSION

September 14, 2006

Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, Idaho 83702-5983

RE: INT-G-06-3
Reply Comments of Intermountain Gas Company

Dear Ms. Jewell,

In response to the Comments of the Commission Staff filed in regards to the above referenced Case, Intermountain Gas Company hereby respectfully submits for consideration by the Commission the following remarks.

The Company notes that Staff included comments, assertions and recommendations within the body of the Staff's Comments, which Intermountain may or may not agree with, but the Company will limit its Reply Comments only to the four (4) recommendations found in "STAFF RECOMMENDATION."

Recommendation No. 1) *That in future IRPs, models that were tested but subsequently rejected in favor of the documented models be reported (along with a summary of why the alternatives were rejected), including customer usage over seasonal and annual time periods, a range of natural gas price forecasts from multiple sources, and price elasticity of demand.*

A chief element of the IRP is a mathematically based model designed to perform an objective analysis based on a system of inputs and constraints. Throughout the process of running these mathematical models there will likely be many model runs; however, most will not provide useful or beneficial results. More often than not, a particular model outcome is "rejected" simply because the model could not run to completion or did not provide satisfactory results without violating any number of model or mathematical constraints or criteria. Intermountain's IRP model will, using its system of data inputs, ultimately select the most efficient mix of resources to meet projected demands meaning that there is one, and only one, best model solution. Further, other than the constraint criteria in the model, it may not be possible to subjectively evaluate why a certain resource did, or did not, make the final cut other than through a generic explanation of economic comparison.

The Company recognizes that for each particular set of demand forecasts, there would of course be a best solution that may differ from another forecast in terms of the types and timing of resources selected. That is why each demand scenario has its own particular solution. The Company does not favor an open-ended approach where all sorts of "what-if" subjectivity could result in many models. The effort to analyze, document and discuss a potentially unlimited number of "test runs" adds an unnecessary level of complexity to an already detailed process.

The Staff's recommendation suggests that the Company does not look at the differences in usage caused by seasonality in its current modeling process. This is not the case. The Company does include seasonal differences in consumption in its filed IRP. Individual regression models are calculated for each of the peak usage months of November through February. The "shoulder months" also have unique usage numbers recognizing the fact that customers use gas differently in the fall as they gear up for winter, than they do in the spring as the weather is getting warmer. Finally, because there are very few heating degree days in July and August, usage is not influenced by temperature so the Company assumes that usage in those months is strictly baseload usage (i.e. gas water heater, or other non-space heating load).

Staff has suggested that the Company use alternate price forecasts to run different scenarios. The gas price forecasts that the Company utilizes in the IRP are market-based projections from NYMEX's February 21, 2006 close. Those prices reflect the market consensus of future prices at that given point in time and, when combined with basin differentials, provide the most reasonable estimate of forecast prices available to Intermountain. Manipulation of those figures by the Company in order to create a price forecast to influence the model outcome in a pre-determined way would add subjective bias in the IRP and would therefore be inappropriate. An alternative would be to obtain outside price forecasts that purport to address market variation. The danger in that approach is that those forecasts likely have no tie, link or correlation to the economic forecast provided by John Church. From a statistical standpoint, there is no way to know whether or not a model using such a price forecast provides better (or worse) results. Finally, adding several different price forecasts to each demand scenario could result in a multitude of models when the main focus of the Company and the Commission is to develop a most likely scenario from which to build an overall strategy or action plan.

The Staff Comments further suggest that the Company did not consider price elasticity of demand in the filed IRP. The Company asserts that its regression models already include the impact of declining usage, caused by a variety of factors, in the equation constants. After careful consideration, the Company chose not to include an additional layer of price elasticity on top of what is already embedded in the regression models. Using an additional measure of price elasticity would be inappropriate in a peak-day usage per customer calculation because it has the potential to underestimate the Company's peak-day requirement as more fully addressed below.

One of the primary uses of the IRP process is to provide projections upon which the Company can rely to ensure that it can provide safe, reliable natural gas service to its customers even on the severely cold (or "design" temperature) day. This requires that the Company have an accurate forecast of peak-day loads so that it can provide adequate capacity infrastructure and supply. Over time, the Company has noticed a measurable decline in weather-adjusted annualized usage per customer. The Company believes its continuing efforts in promoting the

wise and efficient use of natural gas have contributed to this measurable change in customer behavior. While the Company recognizes this usage decline, the effects of these conservation efforts do not affect peak day usage in the same manner as non-peak day load.

The winter of 1990 represented what Southern Idaho can and indeed did experience for record cold temperatures. Since that time, even though Intermountain's service area has experienced record customer growth, peak usage has been mitigated by warmer than normal winter temperatures. Intermountain's customers have been able to lower their natural gas usage in response to price increases by turning down their thermostats and/or employing more permanent conservation measures advocated by the Company. However, thermal efficiencies gained by various conservation measures deteriorate as temperatures reach severely cold levels so that even with lower thermostat settings, a customers' ability to conserve is greatly diminished. If Southern Idaho were to experience record cold temperatures again as it last did back in 1990, most furnaces would have to run continuously just to keep homes at comfortable temperature levels, even if thermostats remained at the lower settings. Thus the Company believes the observed declining use is largely non-peak related and has masked the true peaking load that will occur when we once again experience design weather.

The Company is aware that other LDC's in the Northwest have also observed that while non-peak winter load consumption does appear to have varying degrees of correlation with natural gas prices, design weather consumption has not proven to be significantly correlated to natural gas prices. Including an incremental layer of price elasticity under design weather conditions would potentially underestimate the Company's peak day delivery requirements and jeopardize the Company's ability to serve its customers during record cold temperatures.

Additionally, preliminary research indicates that for a given heating degree day, peak usage per customer on the Sun Valley and Idaho Falls laterals is higher than the average peak usage per customer for the rest of Intermountain's customers. As the IRP document explained, the Company has installed metering equipment on both laterals so the Company will be able to better model, or predict, the usage per customer for those two specific areas of our service territory. The Company does not yet have enough data to make statistically significant calculations regarding usage per customer for a given degree day in the Idaho Falls and Sun Valley lateral areas, but as more data is collected, we look forward to having enough data to test these correlations in a future IRP. Utilizing a usage per customer figure adjusted for price elasticity when calculating the Idaho Falls and Sun Valley lateral peak load would potentially cause the Company to underestimate usage requirements for record cold days on these two very sensitive areas of our system.

The Company will continue to model and correlate the relationship between record cold temperatures and consumption as more representative historical data becomes available while at the same time ensuring the safe, reliable delivery of natural gas on the coldest "design" degree day.

Recommendation No. 2) *That in future IRPs, the Company address the "full spectrum of DSM opportunities available to the Company, including conservation and efficiency measures" that were part of the IRP process prior to Order No. 27098 and that the IRP process be modified to require that a cost/benefit evaluation of all feasible DSM measures be performed and that the Commission consider actions aimed at creating a mechanism that will result in all cost-effective DSM measures being implemented.*

Commission Order No. 27098 requires a "general explanation with each IRP filing of whether there are cost effective demand-side management (DSM) opportunities." The Company believes it has met those requirements with the comprehensive review of conservation measures encouraged and supported by the Company in "The Efficient and Direct Use of Natural Gas" section of the filed IRP. Even though Staff noted in the prior IRP (INT-G-04-1) that "the Company has made significant improvements in its demand side management programs," Intermountain continues in its efforts to improve customer education regarding the wise and efficient use of natural gas.

It is the Company's belief that market forces are the best motivator for conservation, and we have seen this economic theory born out during the recent periods of higher natural gas prices. As prices rise, customers have a strong incentive to conserve natural gas. As discussed in the IRP, the Company has continually encouraged the wise and efficient use of natural gas in direct mailings, bill stuffers, on its educational website, and through television and print media campaigns. The following list enumerates the available conservation and efficiency measures that the Company promotes in its various communications with its customers.

- *Turn down thermostat at night and when unoccupied*
- *Install automatic setback thermostat*
- *Change or clean furnace filters regularly/monthly*
- *Don't block air registers*
- *Consider closing vents in unoccupied rooms*
- *Turn down thermostat on water heater*
- *Fix leaky faucets*
- *Replace old appliances with high energy efficiency models*
- *Consider tempered glass and heat-air exchange systems for fireplaces*
- *Ensure proper ventilation in fireplaces*
- *Keep fireplace damper closed when not in use*
- *Open drapes and shades during daylight hours in heating months and close at night*
- *Seal leaks around doors, windows and other openings*
- *Ensure the recommended levels of insulation in attics, walls and crawlspaces*
- *Install storm, thermal or double-pane glass doors and windows*
- *Insulate hot-water pipes in unheated areas*
- *Flush water heater tank annually*

Intermountain also makes extensive use of its website to educate its customers about conservation measures. The website includes how-to videos and written tips on conservation, as

well as television advertisements suggesting ways to conserve on natural gas usage. It promotes the Intermountain Gas Equipment Finance Program which provides current and prospective customers with a streamlined financing avenue (through Wells Fargo bank) that includes competitive rates and an expedited approval process. This program specifically promotes the use of high efficiency equipment which helps to encourage customers to replace older equipment with new, higher-efficiency units. Intermountain has also designed a website specific to helping industrial customers better manage gas usage.

Community outreach is also an important component in delivering the Company's conservation message. The Company was a co-sponsor of the Energy Resource Symposium, a half-day seminar for energy-assistance providers and advisors, and Intermountain personnel visited a number of Senior Citizens Centers with conservation and payment assistance information. As well, the Company co-sponsored an energy symposium at Fort Hall for the Sho-Ban Native American tribe.

Intermountain continues to encourage dealers and builders to use the most energy efficient appliances possible and we encourage our customers to do the same. The Company remains a partner in the Rebuild Idaho energy efficiency campaign, and has granted funds to the Idaho Department of Water Resources and the University of Idaho Integrated Design Lab in their research of new energy-efficient technologies. Intermountain also actively supports the Gas Technology Institute ("GTI") as it researches ways to improve the efficiency and cleanliness of natural gas applications. The Company credits all of these conservation efforts with contributing to a measurable decline in weather adjusted non-peak heating load consumption resulting in a significant mitigation of gas supply related costs which lowers all of our customers' bills.

However, Staff now suggests that the Company and Commission adopt measures contained within the initial Commission Order concerning IRPs. Changing back to the DSM measures in place prior to Order No. 27098 would require a change in philosophy on the part of the Company as well as the Commission. This Commission has recognized the fundamental economic differences between gas and electric utilities in terms of the appropriateness of various DSM measures and funding mechanisms. Moving from the current market based approach to a system where DSM measures are Company funded through an incremental charge would put upward pressure on customers' bills at a time when they can least afford it, and when market prices are already encouraging the wisest and most efficient use of natural gas possible.

Recommendation No. 3) *To specifically describe and evaluate the additional resources that will be acquired, developed or constructed to eliminate demand deficits in commodity supply and transportation in all future IRPs.*

The Company believes it has already fulfilled Staff request No. 3. A thorough reading of the filed document will show that the additional resources that Intermountain had evaluated and found to be reasonable options were identified and discussed. As well, Exhibit No. 5 contains detailed utilization data for each and every resource in the final Base Case, High and Low optimization models.

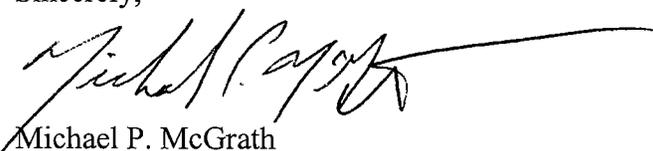
Studies such as the IRP are an invaluable piece of the Company's long-term planning to identify and predict deficits compared against a list of potential resource solutions. While the shorter-term gas supplies are treated as an economic commodity and are generally assumed to be filled by "spot" supplies, the other "fill" resources used in the model, such as interstate capacity, storage, and to some extent, longer-term gas supplies, are not. The difficulty with attempting to provide specific information on these types of resources lies in the fact that they usually become available unexpectedly, at a moments notice, and are generally market driven in terms of volume, timing, and term (i.e. they rarely perfectly match the Company's needs). Consequently, the timing and availability of these resources rarely affords the Company prior knowledge as to availability, contract specifics, counter parties, or other specific details. So, absent publicly announced infrastructure expansion (of which none were known when the IRP was developed), the Company must watch for appropriate opportunities in the open market. The Company is therefore vigilant in seeking, and evaluating the appropriateness of, such market opportunities if and when they do arise. Even if specifics are unknown, knowing what resources are needed, as well as how much, where and when the resources will be needed is useful information that is derived from the IRP process.

Recommendation No. 4) *That the Company publish an addendum to the Resource Optimization section of the IRP addressing the changed lateral transportation capacity deficit positions stated in the Company's response to production request.*

Intermountain acknowledges and appreciates Staff for pointing out to the Company several typographical and data errors in the narrative and tables reporting potential system deficits. While those errors were inadvertent, the Company wishes to state that they were only data reporting errors and in no way affected the optimization model outcome. As the Company has already filed corrected pages with the Commission, the Company believes that filing an addendum at this point would be redundant and unnecessarily confusing for Intermountain's customers.

Intermountain Gas Company appreciates the opportunity to address the above Recommendations made by the Staff and respectfully requests that the Commission consider the Company's Reply Comments in their final evaluation of ruling of this Case.

Sincerely,



Michael P. McGrath
Director
Gas Supply and Regulatory Affairs