

of distribution and service lines were added in response to new customer additions and to maintain service for the growing customer base.

Intermountain's two major markets are the residential/commercial market (the "core market") and the large volume, contract customer ("industrial market"). Intermountain experienced an increase of nearly five percent (5%) in average residential and commercial customers between the first half of FY07 and the first half of FY08. Forty-three percent (43%) of the throughput on Intermountain's system during FY07 was attributable to industrial sales and transportation.

According to the Company's filing, peak day "send-out" (delivery) studies and load duration curves were developed under design weather conditions to determine the magnitude and timing of future deficiencies in firm peak day delivery capability. Residential, commercial and industrial peak day load growth on the Company's system is forecast to grow at an annual average rate of four percent (4%) over the next five years. The Company calculated the growth for the system as a whole along with three separate regions in which Intermountain Gas operates. The Company's service regions with laterals off the main are the Idaho Falls, Sun Valley, and Canyon County laterals. When forecasted peak day delivery is matched against existing resources, Intermountain Gas said it may have delivery deficits on some days of peak use along its Sun Valley Lateral if a compressor station, which increases capacity by providing higher pressure, is not added by fiscal year 2011. Also, the Company said it may experience delivery deficits by 2012 along its Canyon County Lateral. One of the options Intermountain Gas is considering is to increase capacity by adding a new pipe parallel to an existing line where there is currently a bottleneck. The IRP sets forth the following abbreviated analysis of the Company's main service region laterals.

The Idaho Falls Lateral (IFL) region serves cities between Pocatello to the south and St. Anthony to the north. The residential, commercial and industrial load served off the IFL represents approximately sixteen percent (16%) of the total Company customers and twenty one percent (21%) of the Company's total winter delivery during December of 2009. When forecasted peak day delivery on the IFL is matched against the existing peak day distribution capacity of 1,000,000 therms, there are no peak day deficits throughout the five-year IRP Plan. Intermountain believes that small, short-duration peak day distribution delivery deficits in the future can be mitigated by working with customers who have the potential to cut their peak day

consumption by switching to fuel oil during extreme cold temperatures. IRP at 4. However, since there are no deficits, no industrial alternative fuel use is required.

The Company's residential, commercial and industrial customers in the Sun Valley Lateral (SVL) region account for three and a half percent (3.5%) of the total customer base and slightly over three percent (3.3%) of the Company's total winter delivery during December of 2007. When forecasted peak day delivery on the SVL is matched against the existing peak day distribution capacity, a peak day delivery deficit occurs during 2009 and increases thereafter.

The primary industrial load on the SVL is tourism and medical services. No industrial customers on the SVL have the capability to switch to alternative fuels so using industrial fuel to mitigate peak day consumption is not an option. However, the industrial peak day throughput is relatively small. IRP at 5. The optimization model indicated that the most cost-effective method to increase delivery capability on the SVL is the addition of a compressor station prior to FY11. While there are some small deficits in FY09 and FY10, the Company contends that rebuilding the primary gate station serving the SVL and the use of linepack should be able to cover small, short-duration deficits until the new capacity comes on line for the FY11 heating season.

Fifteen percent (15%) of the Company's residential, commercial and industrial load is served off the Canyon County Lateral (CCL) region, and it accounted for thirteen percent (13%) of the Company's total winter delivery during December of 2007. IRP at 6. When forecasted peak day delivery on the CCL is matched against the existing peak day distribution capacity, a peak day delivery deficit occurs during 2012 and increases thereafter. The industrial customers in the CCL region do not currently have the capability to switch to alternative fuels as a means of mitigating peak day consumption. However, the Company states that it is currently exploring optional means of enhancing the distribution capability in this region. The optimization model selected the installation of a pipeline-looping project prior to FY12 as the best solution to this capacity deficit.

STAFF ANALYSIS

In accordance with the Public Utilities Regulatory Policy Act of 1978 (PURPA) (as amended by the 1992 Energy Policy Act), Commission Order Nos. 25342, 27024 and 27098 require that the Company submit an Integrated Resource Plan (IRP) to the Commission every two years, addressing the following elements:

- Demand Forecasting

- Assessment of Efficiency Improvements (DSM Actions) & Avoided Costs
- Natural Gas Supply Options
- Natural Gas Purchasing Options and Cost Effectiveness
- Integration of Demand and Resources
- Two Year Plan
- Relationship Between Consecutive Plans (2006 Plan to 2008 Plan)
- Public Participation

The Company's 2008 IRP addressed each of these elements to various degrees, as described in more detail below.

Demand Forecasting

The Company's Demand Forecasting represents the basis for the 5 year planning period of 2009-2013. Demand Forecasting outlines three key components in discussing how future load requirements are modeled for resource planning. These are outlined as the "Residential and Commercial Customer Growth Forecast," "Heating Degree Days and Design Weather," and "Usage Per Customer." The "Residential and Commercial Customer Growth Forecast" provides the anticipated magnitude and direction of Intermountain's residential and small commercial customer growth by focus zones for Intermountain's current service territory. "Heating Degree Days and Design Weather" capture the influence that changing temperature has on system loads given Intermountain's diverse geographic service territory. "Usage Per Customer" discusses the calculations of therm usage per customer. These results, when combined with the customer forecast and design degree days, are used to develop the IRP demand forecast.

Based on the recommendations of Staff in past IRPs and Intermountain's continued diligence to improve forecasting, Staff has seen progress in particular areas of Demand Forecasting. Staff acknowledges the Company's advances recognizing different usage characteristics, specifically among the peak vs. non-peak months, weekend vs. weekday, and between non-peak billing classes. Staff also recognizes the detail in forecasting, which includes multiple customer growth and natural gas price scenarios for each lateral along with the entire Company. The Company has provided a more detailed description of the regression variables tested and used for peak and non-peak load forecasting, along with the methodology for

projecting market penetration and conversion rates. This is precisely the type of description Staff believes is needed in the IRP, providing a detailed description of the Company's forecasting process clearly illustrates a modeling framework. Within the framework of this methodology Staff believes the Company should continue to closely monitor how accurately its "IGC Conversion Rate" and "IGC Commercial Multiplier Rate" predict their intended regional categories over time. Since these rates are calculated based on the percentage of their respective categories relative to home construction, it is important to make sure these interrelationships provide historically accurate projections given the housing industry's volatility. Providing a brief analysis of the Company's effort to track this variance within the next IRP would provide the Commission and Staff confidence in the Company's commitment to improvement. In addition, Staff would like to see the Company continue to monitor the benefit of enhancing its ERT (Encoder-Receiver Transmitter) system technology for selected sampling given the associated costs. This technology would allow the Company to collect daily usage information by customer class and may provide more visibility and granularity to its forecasting, specifically among small commercial customers where the Company says "the GS customer class is very diverse, ranging from small office buildings all the way up to small food processors." IRP at 30.

Staff acknowledges the Company has installed additional throughput measurement meters on targeted areas of the Sun Valley (SVL) and Idaho Falls (IFL) laterals. Although data is still being collected and has not been completely utilized for forecasting within the IRP, Staff believes the Company should provide a summary in the next IRP illustrating the statistical significance, outcome, and decisions resulting from the Company's more complete SVL and IFL total daily usage data.

In response to Staff's Production Request No. 8g the Company states: "Studying the Sun Valley Lateral data led Intermountain to conclude that the Total Company models may not be accurately accounting for what appears to be a higher peak day usage per customer on the Sun Valley Lateral, an area that includes a housing stock with significantly larger average square footage per household." As stated previously, Staff believes a sample set of enhancements to the ERT system would provide intra-class data that would be useful in evaluating the impact of influential factors such as square footage. In addition, this will provide valuable information for forecasting, structuring prices, evaluating trends, and designing DSM programs. The Company could then evaluate how a sample set of enhanced ERT system data would benefit decision making given the cost. Perhaps particular programs are more successful among certain regions

and intra-class profiles. This technology would allow Intermountain to accurately evaluate appropriate customer incentives, and cut marketing costs through more targeted and successful campaign avenues. Staff recommends that as more complete data is collected and potential ERT system enhancements reviewed, the next IRP should be expanded to include an evaluation and framework of its DSM programs.

Assessment of Efficiency Improvements (DSM Actions) & Avoided Costs

In response to an April 27, 1997, filing by the Company (Case No. INT-G-97-2), the Commission issued Order No. 27098 allowing the Company, in its biennial IRP, to address efficiency measures with a "general explanation with each IRP filing of whether there are cost effective (demand-side management (DSM)) opportunities." Order No. 27098 at 2. Prior to that time the Commission required that the IRP address "... a full spectrum of opportunities available to the Company, including conservation and efficiency measures...." Order No. 25342.

In addressing efficiency, the Company simply states that it hired Navigant as a consultant to identify DSM opportunities. However, Staff believes it is important to provide a detailed explanation in the IRP of the cost effective opportunities that Navigant identified, with their various costs, design, deployment potential, peak savings, year-round gas savings, and implementation timelines. By providing these evaluations and making them available within the IRP, the Commission and Staff are made aware of the potential gas saving opportunities. With regard to the Company's current evaluation of DSM programs, the Company states: "While most of the measures in Navigant's group provided cost-effective, year-round gas savings, none had any meaningful effect on Intermountain's peak demand." Staff believes that although these programs may not directly target just Intermountain's "peak demand," they may provide year-round gas savings relief during the remainder of the year, enabling Intermountain's customers to lower annual per-capita demand. Within the next IRP, Staff recommends that DSM program cost effectiveness be evaluated according to its affect on peak demand and year-round gas savings.

Similar to the Company providing a methodology detailing the framework of demand forecasting, Staff recommends a similar approach with the current and future DSM programs. This approach should outline a methodology for selecting pilot areas, targeting customers, determining customer incentives, program design, and timeline for implementation to ensure Intermountain is successfully promoting efficiency. Currently there are three incentive programs

that have been under evaluation and consideration by the Company since the 2006 IRP. By outlining a framework for these program milestones within the IRP, Intermountain can assess, decide on, and implement programs in a timely manner.

Natural Gas Supply Options

The Company addresses commodity supply in two sections of the IRP, "Traditional Supply-Side Resources" and "Non-Traditional Supply Resources," IRP at 43-50 and 51-54, respectively. Intermountain's traditional natural gas supplies are located primarily in three producing regions: British Columbia (BC), Canada; Alberta, Canada; and the Rocky Mountain (or Domestic) region consisting of production primarily from the states of Wyoming, Utah, Colorado and New Mexico.

British Columbia, Canada, has traditionally been a source of inexpensive and abundant gas for the Pacific Northwest. However, the completion of the Alliance pipeline delivering capacity to Eastern Canada and the Midwest US has alleviated captive regional bottlenecks that previously benefited the Northwest. Currently there is adequate supply given the provincial demand, however future natural gas discoveries in Northeast BC are necessary for Intermountain to rely on future imports from this region. Alberta production accounts for nearly forty percent (40%) of the Company's daily supply purchases. Positive factors influencing the decision to purchase Alberta supplies are vast reserves, extensive pipeline facilities, and access to production-based storage. Despite the fact that Alberta is believed to have the largest natural gas reserves on the North American continent and produces ten times the Pacific Northwest's yearly consumption, a couple of concerns remain. Since most of the shallow reservoir wells were exhausted, new well completions are expected to be deeper wells which have a different production cycle. Unlike shallow wells, which typically have steep production curves but exhaust quickly, these have shallow production curves which have steadier rates that last for much longer periods. Therefore, short run supply availability may tighten but long term forecasts project growth. The Rockies basin has historically been the second largest source of supply due to Intermountain's positioning with regards to interstate capacity. Although this gas currently trades at a discount compared to the aforementioned basins, Intermountain foresees several new pipeline projects that could put upward pressure on price. Among these pipeline projects are plans to take gas west into California and east on the Midwestern pipeline system.

However, at this point Intermountain expects to continue obtaining approximately fifty percent (50%) of annual supply from Rockies.

The Company's non-traditional supplies are primarily focused on two areas: 1) the encouragement of customers to switch from natural gas to fuel oil, coal, wood chips, or propane; and 2) the Company's alternative options such as remote/portable LNG and biofuel production. Non-traditional supplies offer promising complementary solutions to reducing peak consumption. Therefore, Staff recommends that Intermountain continue to engage in negotiations with its IFL industrial customers capable of utilizing non-traditional supplies. Identifying and enabling customers with the capability to switch fuel could reduce demand during peak periods and provide relief to all customers.

The Company's supply options are diversified and adequately explained. In Staff's opinion the Company has sufficiently addressed supply-side options in the IRP.

Natural Gas Purchasing Options and Cost Effectiveness

Intermountain's strategies for purchasing natural gas include optimizing three modeling components to identify the most appropriate resources to meet demand. These modeling components can be characterized as the Demand Forecast, Supply Resources, and Transportation Resources. Intermountain uses advanced allocation software to utilize its resources effectively over time given regional natural gas demand. Other factors that make Intermountain the lowest cost retail service provider in Idaho are its substantial utilization of storage facilities and its proximity to centralized transportation capacity.

Intermountain utilizes three geographically diverse underground storage facilities located in Western Washington, Northeastern Utah, and Eastern Alberta Canada. In addition, the Company has two LNG facilities, one owned by Northwest Pipeline located near Plymouth, Washington, and a Company owned facility near Nampa, Idaho. All of the Company's out-of-service territory storage is either bundled with transportation to the service territory or is combined with Company-contracted transportation to the service territory. Intermountain injects excess gas into storage during off-peak periods when prices are lower and then withdraws it during the peak load months. This process allows for more efficient year-round use of natural gas supply and transportation capacity.

Intermountain's proximity to several interstate pipelines allows it to effectively allocate its natural gas supply mix from several different basins based on price differentials, and

subsequently redeliver that specified volume on its own distribution pipeline network at the lowest possible price. Since Northwest Pipeline (a large pipeline connecting the Rockies supply basin) runs directly through Intermountain's service territory, Intermountain is able to geographically utilize this service more directly. In addition to Northwest Pipeline, Intermountain has firm capacity on three other pipelines that deliver Alberta, Canada, gas to Northwest's Stanfield interconnect.

The Company's strategies have not only ensured that adequate gas supplies are available to its customers, but also that the adverse impact of significant price movements in the natural gas commodity is mitigated, and the credit risk inherent in the implementation of certain price risk reducing strategies is minimized. The Company has documented the processes, procedures, and evaluation of resources, therefore the Staff considers this section sufficiently covered within the IRP.

Integration of Demand and Resources

Intermountain projects residential, commercial and industrial average annual growth to occur at 2.1% (low growth), 3% (base case) and 4.1% (high growth). Under each of these customer growth scenarios Intermountain identifies deficits that would occur if corrective action were not taken. When forecasting peak day sendout for the IFL Design Base Case and comparing it against the existing peak day lateral capacity, which includes the Satellite LNG peak withdrawal capability, no peak day delivery deficit occurs in any year under all customer growth scenarios. When forecasting peak day sendout for the SVL Design Base Case and comparing it against the existing peak day lateral capacity, a peak day delivery deficit occurs starting in 2009 for design weather scenarios and increases at an average rate of 265 MMBtu for low growth, 379 MMBtu for base case, and 546 MMBtu for high growth. However, the Company believes these deficits can be remediated by rebuilding the gate station and relying on linepack for very short durations until 2011. When forecasting peak day sendout for the CCL Design Base Case and comparing it against the existing peak day lateral capacity, a peak day delivery deficit occurs starting in 2012 under base case growth and high growth. Intermountain attributes this deficit to a single, undersized, bottleneck line which stands out as the weak point in the system despite multiple pipelines of different diameters and pressures. The Company believes the best enhancement for this situation is a loop line installed prior to 2012 that will remove the current bottleneck restriction associated with the current pipeline network. Staff

remains confident regarding the Company's ability to allocate resources according to the magnitude of future deficits. Therefore, Staff acknowledges the remediation decision that enhancements will provide to ensure adequate service. Staff believes the Company has specifically described and evaluated the types of additional supply resources that will be acquired, developed, or constructed to eliminate deficits and, therefore, the Company has fulfilled its necessary IRP requirements.

Two Year Plan

Within the "Two-Year Plan" section of the 2006 IRP Staff Comments, Staff recommended that the Commission "consider striking the requirement for the Company to submit a two-year plan within the IRP." This recommendation was made because Staff believed that the Company's five-year IRP provided information adequately addressing the original need for requiring the two-year plan, and that it may no longer be necessary for the Company to submit a two-year plan within its IRP. Although no Commission Order has been issued eliminating the two year plan, nor has a formal recommendation been made to the Commission, the Company did not include a 2 year plan with this Petition.

It remains Staff's opinion and recommendation that Order No. 25342, page 4, be modified to remove the statement requiring "A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the integrated resource plan." The information in the five-year plan should provide information that would adequately fulfill the two year plan's purpose, and the inclusion of the two-year plan within the Company's five-year IRP usually results in duplicative information that does not further illuminate the overall plan.

Relationship Between the Plans (2008 IRP vs. 2006 IRP)

In the comparative analysis between the 2006 IRP and the present IRP the Company satisfies its IRP requirement by discussing several differences in the outcome of its key planning components. Although this information fulfills the necessary IRP requirements, progress in methodology and program design is not clearly illustrated. More specifically, the "Demand-Side Management" comparative evaluation simply restates what was previously discussed in the 2006 IRP leaving the reader with little indication of progress. The Company briefly discusses Navigant's work but provides little detail on how the outcome has contributed toward future planning or program design. Within the next IRP, Staff recommends that the Company focus on

these improvements or changes, specifically within the “Demand-Side Management” section as price increases continue to escalate the need for, and cost effectiveness of, efficiency and conservation.

Public Participation

Staff believes the Company has met the requirement for public participation in the IRP process. The Company’s customer contact and marketing personnel participate in energy efficiency education through working relationships with members of the community. Intermountain participates in the Energy Resource Symposium, a half-day seminar for energy-assistance providers and advisors. Participants were given information on various developments in payment plans and energy payment assistance. Staff recommends the Company continue to target these types of programs as utility prices increase. Directly contributing to weatherization assistance programs and CAP agencies helps ensure success and spread information on these payment assistance plans. Staff notes that Intermountain is an active partner in the Rebuild Idaho energy efficiency campaign, Energy Star, and is a co-sponsor of the Idaho Building Efficiency Conference.

STAFF RECOMMENDATION

After a complete evaluation of the Company’s IRP, its methodology and conclusions, Staff recommends that the Commission acknowledge the Company’s IRP as fulfilling the necessary requirements. However, Staff has the following recommendations for future IRPs:

- 1) That the Company provide an analysis of how accurately its “IGC Conversion Rate” and “IGC Commercial Multiplier Rate” predict growth in number of customers and load over time.
- 2) That the Company continue to monitor the benefit of enhancing its ERT system technology for selected sampling given the associated costs.
- 3) That the Company continue to briefly summarize the statistical significance, outcome, and decisions resulting from the Company’s more complete SVL and IFL total daily usage data.
- 4) That the Company define the cost effectiveness of DSM opportunities as both year around and peak demand gas savings, and elaborate on cost effective programs with a

framework for program design, estimating costs, deployment potential, peak savings, year around savings, and implementation timeline.

- 5) That the Company provide more detail on the differences in DSM evaluation between its IRPs.
- 6) That the Commission remove the statement requiring "A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the integrated resource plan." Order 25342, page 4.

Respectfully submitted this 2ND day of September 2008.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 2ND DAY OF SEPTEMBER 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. INT-G-08-2, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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