

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN)
GAS COMPANY'S 2011-2015 INTEGRATED) CASE NO. INT-G-10-04
RESOURCE PLAN)
) ORDER NO. 32139
)

On August 31, 2010, Intermountain Gas Company (Intermountain or Company) filed its Integrated Resource Plan (IRP) for the years 2011-2015. The Company filed its IRP pursuant to the requirements of Commission Order No. 25342 and Section 303(b)(3) of the Public Utility Regulatory Policies Act (PURPA). The Executive Summary of the IRP identifies the purpose of the plan as "to describe the currently anticipated conditions over the five year planning horizon, the anticipated resource selections and the process for making resource decisions." IRP, p. 5.

The Commission reviews Intermountain's IRP to ensure that it represents a diligent effort by the Company to plan for anticipated supply and demand for natural gas during 2011-2015. Previous Commission Orders require that Intermountain address the following elements in its IRP:

- 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
- Relationship Between Consecutive Plans (2008 Plan to 2010 Plan)
- Public Participation.

See Order Nos. 25342, 27024 and 27098. The Commission's acceptance of the IRP does not constitute approval of plan specifics or of any transaction undertaken as part of the plan.

On September 29, 2010, the Commission issued a Notice of Filing and Notice of Modified Procedure establishing a period for the filing of written comments on Intermountain's IRP. Written comments were submitted by the Commission Staff and by the Idaho Conservation League. The Company filed brief reply comments responding to three specific recommendations made by Staff.

SUMMARY OF THE COMPANY'S IRP

Regional Studies

The IRP analyzes certain geographic regions within Intermountain's service territory, reviewing anticipated or known need for distribution system upgrades within each specific region. The geographic regions are identified as the Idaho Falls Lateral (IFL), the Sun Valley Lateral (SVL), the Canyon County Lateral (CCL), the State Street Lateral (SSL) and an All Other Region. The Company projects its combined system-wide residential, commercial and industrial customer growth over the five-year period to be 30,721 (low growth), 34,075 (base case) and 38,793 (high growth). Intermountain projects its combined system-wide residential, commercial and industrial peak day event load over the five-year period to grow at an average annual rate of 2.03% (low growth), 2.26% (base case) and 2.57% (high growth).

The Idaho Falls Lateral is 104 miles in length and serves a number of cities between Pocatello and St. Anthony in eastern Idaho, and comprises approximately 15% of the total Company customers and 19% of the Company's total winter send-out during December 2009. IRP, p. 7. The customers served in the Sun Valley Lateral represent approximately 4% of the total customers and 4% of the Company's total winter send-out during December 2009. The Idaho Falls and Sun Valley Laterals have deficits starting in 2011 that continue to grow through 2015.

The IRP indicates the Company has planned to meet the expected demands in the Idaho Falls and Sun Valley regions. The deficit identified on the IFL does not include 19,000 Dth of peak withdrawal capability at the Rexburg LNG facility. The Company has enough capacity through the five-year plan to cover the deficits during a high growth peak day event scenario by using capacity from the Rexburg LNG plant. The Company also is in the process of completing upgrades to eliminate its capacity shortfalls on the SVL. The Company is installing a compressor station to increase the pressure of gas up to the far end of the lateral, where nearly its entire demand is located. This additional pressure will add approximately 2,900 Dth of capacity to the SVL by the start of 2011, and adds enough capacity through the five-year plan to cover the Company's potential deficits during a high growth peak day event scenario. Growth along the Sun Valley Lateral will require a future upgrade to the existing pipeline system and the Company plans to increase the delivery capability on the Sun Valley Lateral using a series of cost-effective system upgrades beginning in 2011.

The Canyon County Lateral represents approximately 14% of the total Company customers and 13% of the Company's total winter send-out during December 2009. The IRP states that a matching of the existing peak day distribution with anticipated demand shows that there are no peak day delivery deficits during 2011-2015.

The State Street Lateral is identified for the first time in the 2010 IRP. The SSL is a 16-mile stretch of high pressure transmission main that begins in Caldwell and runs east along State Street into north Boise. Because the lateral's capacity is becoming increasingly tight, and it is closely surrounded by residential and commercial population that makes it difficult for construction and land acquisition, the Company included it separately in its planning. The IRP states that there is currently no threat of capacity constraints in the State Street Lateral, but that the Company is monitoring it as demand is beginning to approach design capacity. During the 2011-2015 timeframe, the IRP states there are no capacity constraints for the State Street Lateral.

Demand Forecasting

Resource planning involves forecasting future load requirements, and the Company considers three components to determine demand: (1) projecting the number of customers requiring service, (2) estimating customers' sensitivity to temperature and (3) determining anticipated weather affecting customers' usage. The Company creates low case, base case and high case scenarios to evaluate the adequacy of its supply arrangements under a range of price and growth possibilities.

Intermountain estimates industrial demand by identifying each large volume contract customer's usage patterns and by estimating each customer's projected natural gas usage. The projections include information provided by the customer regarding plant expansion or modification, equipment replacement, alternative fuel capabilities, and anticipated product demand. Intermountain's 110 industrial customers are comprised of 6 separate groups, specifically potato processors, other food processors, chemical and fertilizer, manufacturers, institutions, and all other. According to the Company's base case, the three groups with the highest compound annual growth rate over the next five years are expected to be food processors (5.3%), institutions (4.1%), and manufacturers (3.3%). Overall, the compound annual growth is expected to be 2.6% for the low case, 2.18% for the base case, and 3.2% for the high case.

Intermountain's Core-market customer growth forecast is based on three primary components: (1) the number of new residential construction customers, (2) the number of

residential customers converting to natural gas from other fuel sources, and (3) the number of small commercial customers. The Company combines the results of a local third party economics forecast with data it collected on current customers to develop a forecasting methodology.

Intermountain determines the number of small commercial customers using the same methodology as in the last several IRPs. It based commercial customer growth on the number of new residential customers, assuming that new households require additional new businesses to serve them. Specifically, the "IGC commercial rate," which is the estimated percentage of commercial customers relative to the number of residential new construction customers, is multiplied by the number of residential new construction customers. Based on the Company's most recent three-year sales data, this ratio of small commercial customer growth to residential growth has averaged 11.83%.

Assessment of Efficiency Improvements (DSM Actions) & Avoided Costs

The Company outlines its demand-side management (DSM) opportunities consistent with Commission Order No. 27098 instructing the Company 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. Specifically, the Company evaluated three different programs: (1) continuation of its \$200 rebate to customers who install a 90% or greater efficiency natural gas furnace when converting to natural gas, (2) a \$30 rebate when a customer installs a .64 or greater energy factor gas water heater at the time of conversion, and (3) a \$200 rebate when an existing customer replaces a below 90% efficiency natural gas furnace with a 90% or greater efficiency natural gas furnace. The Company uses a third party consultant to help identify potential DSM opportunities using the total resource cost (TRC) test to identify cost effectiveness, and to evaluate its three DSM programs. Intermountain is considering deploying the water heater conversion and furnace/water heater upgrades as pilot programs on the Idaho Falls Lateral in the first quarter of Calendar 2011.

The Company promotes conservation using mail brochures, mass media, and its web site. An Energy Conservation Brochure is mailed to every Core-market customer and can be viewed on the Company's web site. The brochure provides information to customers on energy saving tips and loan programs for energy efficient upgrades. Customers can view their most recent consumption history on the Company's web site, and Intermountain provides a 10-minute

video to community action agencies and others who counsel homeowners on wise energy use. Industrial customers can obtain up-to-date, hourly site-specific information on their usage from the Company's web site. Intermountain also works with numerous organizations to assist with energy efficiency research, outreach, and training.

The IRP indicates the Company continues to make progress to reduce lost and unaccounted-for (LAUF) natural gas. LAUF is the difference between the volumes of gas delivered to the distribution system and the volumes billed to customers. The Company has audits in place to help identify dead meters, malfunctioning meters, incorrect meter sizes, billing errors, and distribution line leaks. According to the audit results provided by the Company, gas loss due to distribution line damage has dropped by 54% since 2007, and drive rate errors have dropped 58% over the same period. This is the first IRP where the Company included a summary of its efforts to conserve LAUF natural gas.

Natural Gas Supplies

Intermountain receives supplies predominantly from the Western Canadian Sedimentary Basin in Alberta and northeast British Columbia. Combined, these represent 55-60% of supply with the remainder coming from the Rockies Basin, a region primarily from the states of Wyoming, Utah, Colorado and New Mexico. Overall, the Company has experienced a "drastic decline in reserves and production from regions that have historically been top producers." IRP, p. 51. Fortunately, new drilling technology enables coal seam and shale gas reserves to make up for productivity losses in the top producing basins. The Company estimates gas from the Northwest Territories and Alaskan North Slope is at least 10 years out; however, when combined with new shale reserves, the Company expects long-term production to increase through 2024.

The Company must purchase capacity on several interstate pipeline companies to transport gas from the supply basins to the Company's distribution system. All of the natural gas that was once captive to this region is now available to more expensive eastern markets, however, because pipeline bottlenecks have been eliminated. Supplies in Alberta, British Columbia, and Rockies flow east, so regional discounted prices are lost to competition with higher prices in the Midwestern U.S. and eastern Canada. The IRP indicates there continues to be adequate supply from all three basins, but the northwest market has tightened because of pipeline expansions east and less short-term production from conventional wells.

The Company also has a portable Liquefied Natural Gas unit to shave peak on the northern end of the Idaho Falls Lateral. In 2007, the Company built the infrastructure necessary to accommodate injections into the IFL, and in 2009, installed a permanent storage tank to reduce reliance on tanker trucks. The portable equipment can be operational within five to seven days anywhere in the Company's service territory, so it also acts to remediate shortages on the other laterals.

Natural Gas Purchasing Options and Cost Effectiveness

Intermountain uses three underground storage facilities in western Washington, northeastern Utah, and eastern Alberta, Canada, to manage its supply and delivery portfolio. 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. The Company hedges against more expensive gas during peak load months by injecting excess gas into storage during off-peak periods when prices are lower. This storage has provided price stability to customers, minimizing the amount of year-round interstate capacity, and allowing the Company to serve the winter peak while minimizing year-round firm gas supplies.

The Company has two conventional LNG facilities, one owned by Northwest Pipeline located near Plymouth, Washington, and a Company-owned facility near Nampa, Idaho. As previously mentioned, the Company also has a portable Rexburg satellite LNG facility that conceivably can be located anywhere a tanker truck can travel. Currently the Rexburg LNG facility is needed to remediate the potential near-term peak day supply deficits on the Idaho Falls Lateral.

The Company's strategies help ensure that adequate gas supplies are available to its customers, and that the adverse impact of significant price movements in the natural gas commodity is mitigated.

Public Participation

According to Order No. 25342, when the Company is "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." The Company held two IRP public meetings, one in Boise and the other in Pocatello. Only one person attended the Pocatello meeting.

STAFF COMMENTS AND COMPANY REPLY

Staff recommended the Commission accept Intermountain's 2011-2015 IRP as fulfilling the requirements established by the Commission. Staff also made three recommendations to improve future IRPs. First, because the Company projects commercial customer growth based on new residential home construction, Staff questioned whether these relationships provide accurate projections, given volatility in the housing industry. Staff recommended that in future IRPs the Company provide a comparison of forecasted and actual results over the past several IRPs, illustrating the number of conversions per class, number of customers per class, and usages.

Staff also stated a concern with the Company's position regarding the deployment of DSM programs for residential and small commercial customers. The IRP states that at the conclusion of prior regulatory procedures and evaluations, "it was not clear that DSM made sense for IGC for a variety of reasons and externalities. As a result, the IPUC ordered IGC not to deploy any Core-market DSM programs." IRP, pp. 76-77. The Company referenced Order No. 26546, Case No. INT-G-96-4, to support its statement that it need not deploy Core-market DSM programs. Staff recommended the Commission clarify the intent of its language in Order No. 26546 regarding Core-market DSM programs.

Finally, Staff recommended the Company notify city leaders in advance of future IRP public meetings and filings. Staff stated this may be particularly important on the Idaho Falls Lateral, where Intermountain may have to make additional arrangements to meet the demand of new large volume and transportation customers. City leaders are key stakeholders who represent the communities Intermountain serves, and should be an integral part of the IRP planning process.

Intermountain filed comments to respond to each of Staff's recommendations. Regarding additional information on forecasts and actual results on customer conversions and usage, the Company stated its "future IRPs will include a summary comparison of number of conversions per class, number of customers per class, and usage in the 'Relationship Between Consecutive Plans' section of the document." Reply Comments, p. 1.

Regarding DSM programs for Core-market customers, Intermountain concedes it has limited the use of cash incentive rebate programs, and "maintains that the intent of language in Order No. 26546 was to refrain from the deployment of Company sponsored conservation rebate

programs unless they could be proven to be cost effective and necessary and therefore in the best interest of Intermountain's customers." Reply Comments, p. 1.

In response to Staff's suggestion that the Company do more to encourage public participation in the IRP process, Intermountain stated it "is committed to improve its public participation throughout the rest of the state [outside Boise], and will reassess its strategies in that regard." Reply Comments, p. 2.

IDAHO CONSERVATION LEAGUE COMMENTS

The Idaho Conservation League (ICL) filed comments to encourage additional efficiency programs by Intermountain. In order "to mitigate price volatility and the need for expensive new infrastructure," ICL stated that "Intermountain should pursue Demand Side Management options far more than contemplated in the IRP." ICL Comments, p. 1. ICL argues that price increases in the long term are inevitable, given expected declines in gas from existing sources in Canada and the northwest states. ICL stated particular concern that "faced with limited access to the Rockies, Intermountain plans to rely on Canadian sources they acknowledge to be more expensive and in decline." ICL Comments, p. 3. ICL stated the Company instead should be planning for long-term price stability by investing in DSM programs.

ICL recognizes that Intermountain should invest only in DSM programs that are cost-effective, but noted other DSM programs offered by utility companies may "reveal that Intermountain Gas may not be pursuing all cost effective energy efficiency." ICL Comments, p. 6. ICL suggested the Company work in cooperation with Idaho Power Company to share a DSM burden associated with customers who switch from electricity to gas as their heat source.

DISCUSSION

Intermountain Gas Company is a natural gas utility as defined in *Idaho Code* §§ 61-116 and 61-117, and the Commission exercises jurisdiction over Intermountain pursuant to *Idaho Code* § 61-129 and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* An IRP is a planning document for the Company to consider many factors and variables that can arise as the Company looks at natural gas supply and demand in the next few years. The plan is not merely an academic or regulatory exercise but is intended to demonstrate to the public that the Company has considered, and prepared for, a multitude of scenarios. The Commission expects each company submitting an IRP to vigorously test each assumption used in its plan to better ensure that the results of its IRP accurately reflect changing markets and customer demand.

Staff conducted a thorough review of the IRP and raised three concerns addressed by the Company in reply comments. First, the Company committed to provide in future IRPs a more thorough comparison of number of conversions per class, number of customers per class, and customer usage. The Commission appreciates the Company's commitment and believes it is appropriate to provide this additional information. Intermountain's response to Staff regarding DSM programs for residential and small commercial customers does perhaps indicate a misunderstanding of the Commission's directive for these programs. To clarify, Intermountain should consider any DSM programs for Core-market customers that have the potential to be cost-effective in promoting and enticing energy savings. As recommended by the Idaho Conservation League, Intermountain should carefully consider all DSM programs that are available to encourage customers to use natural gas efficiently, and Company reviews of programs must be included in its IRPs. Its IRPs in the future must reflect that it has evaluated DSM programs for all customer groups. Finally, the Company's commitment to improve public participation in the IRP process is a critical component of the process. It should provide appropriate notice to city and county leaders as part of the process, especially in the Idaho Falls and Rexburg areas. The Commission is concerned that the portable Rexburg satellite LNG facility is not sufficient to encourage and support new business opportunities in the Rexburg area.

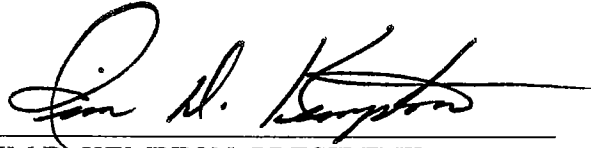
Based upon our review of the Company's IRP and the written comments, the Commission finds that Intermountain Gas Company's 2010 Natural Gas IRP satisfies the requirements set forth in previous Commission Orders. Accordingly, the Commission accepts the Intermountain Gas Company 2010 Natural Gas Integrated Resource Plan for filing. The Commission's acknowledgement and acceptance of the Plan should not be interpreted as approval of the plan, or as a judgment of the prudence of any transactions undertaken as part of the plan.

ORDER

IT IS HEREBY ORDERED that the Commission accepts the Intermountain Gas Company 2010 Natural Gas Integrated Resource Plan for filing.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* §§ 61-626 and 62-619.

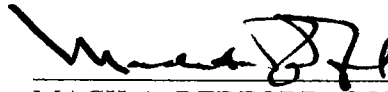
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 17th
day of December 2010.



JIM D. KEMPTON, PRESIDENT

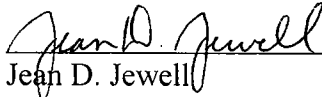


MARSHA H. SMITH, COMMISSIONER



MACK A. REDFORD, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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