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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS)	
COMPANY'S 2011 - 2015 INTEGRATED)	CASE NO. INT-G-10-4
RESOURCE PLAN (IRP).)	
)	COMMENTS OF THE
)	COMMISSION STAFF
)	

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Filing and Notice of Modified Procedure issued in Order No. 32074 on September 29, 2010, submits the following comments.

BACKGROUND

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). Intermountain is the sole distributor of natural gas in southern Idaho. Its service area covers approximately 50,000 square miles containing a population of approximately 1 million. During the first half of 2009, the Company served approximately 305,000 customers in 74 communities through a system of over 10,000 miles of transmission, distribution and service lines. The Company added 120 miles of distribution and

2,883 service lines to accommodate new customers and maintain service for the Company's growing customer base.

THE INTEGRATED RESOURCE PLAN

Intermountain provides natural gas sales to two major markets: the residential and commercial market (Core-market) and the industrial market. During 2009, the Company served an average of 275,522 residential and 29,673 commercial customers, which equates to an increase in average residential and commercial customers of 1.1% from 2008. Residential and commercial customers use natural gas primarily for space and water heating. Intermountain's industrial customers use natural gas for boiler and manufacturing applications. The IRP states that industrial demand for natural gas is strongly influenced by the agricultural economy and the price of alternative fuels. During 2009, 41.2% of the throughput on Intermountain's system was attributable to industrial sales and transportation.

The IRP states that the Company's peak day loads (throughput during the projected coldest winter day) are growing at a manageable rate. The growth in the Company's projected peak day load is attributable to (1) growth in Intermountain's customer base, primarily residential and commercial, and (2) production-related growth occurring in the Company's industrial firm transportation market.

The IRP is a planning document for the Company to analyze numerous factors and variables that affect the supply and demand for natural gas in the next few years. 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. The Commission's acceptance of the IRP does not constitute approval of plan specifics or of any transaction undertaken as part of the plan.

Forecast Peak Day Send-Out

The Company analyzed several peak day send-out (delivery) studies to determine the magnitude and timing of future deficiencies in firm peak day delivery capabilities, looking at both a total interstate mainline perspective as well as geographic region specific perspectives. Residential, commercial, and industrial customer peak day load send-out is matched against

available resources to determine which combination of new resources will be needed to meet the Company's future peak day delivery requirements in the most cost-effective manner. IRP, p. 6. The Company estimates that residential, commercial, and industrial peak day load growth over the five-year period will increase at an average annual rate of 1.75% under a base case scenario.¹ The IRP indicates that there are no peak day delivery deficits when forecasted peak day send-out is matched against existing resources. IRP, p. 7.

Regional Studies

The IRP analyzes certain geographic regions within Intermountain's service territory based upon the anticipated or known need for distribution system upgrades within each specific region. The geographic regions are identified as the Idaho Falls Lateral (IFL) Region, the Sun Valley Lateral (SVL) Region, the Canyon County Lateral (CCL) Region, the State Street Lateral (SSL) Region and an All Other Region. The Idaho Falls Lateral is 104 miles in length and serves a number of cities between Pocatello and St. Anthony in eastern Idaho. The residential, commercial, and industrial load served off the Idaho Falls Lateral represents approximately 15% of the total Company customers and 19% of the Company's total winter send-out during December 2009. IRP, p. 7. The IRP identified a peak day delivery deficit for the Idaho Falls Lateral that occurs during 2011 and increases in each of the next four years. However, the IRP states that peak day delivery deficits can be managed by bringing on gas from the new Rexburg LNG facility.

The residential, commercial, and industrial customers served off the Sun Valley Lateral represent approximately 4% of the total customers and 4% of the Company's total winter send-out during December 2009. When forecasted peak day send-out on the Sun Valley Lateral is matched against existing capacity, a peak day delivery deficit occurs during 2011 and slightly increases during each of the next four years. The IRP states that the growth along the Sun Valley Lateral will require a future upgrade to the existing pipeline system. The IRP states that the Company plans to increase the delivery capability on the Sun Valley Lateral using a series of cost-effective system upgrades beginning in 2011.

¹ The "Base Case" is the Company's estimate of the most likely outcome given its experience, industry knowledge and understanding of future natural gas markets.

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 IRP states that there is currently no threat of capacity constraint 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.

Assessment of Potential DSM Programs

The IRP states that, in addition to reviewing traditional and non-traditional resource alternatives, Intermountain analyzed potential demand-side management (DSM) measures to mitigate potential constraint areas. Specifically, the Company evaluated three different programs: the 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 IRP analyzed residential, commercial and industrial customer growth and its impact on Intermountain's distribution system using design weather conditions under various scenarios for Idaho's economy. Peak day send-out under each of these customer growth scenarios was measured against the available natural gas delivery systems to project the magnitude and timing of delivery deficits, both from a total Company perspective as well as a regional perspective. The resources needed to meet the projected deficits were analyzed within a framework of options, including DSM measures, to help determine the most cost-effective means to manage the potential deficits.

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 Intermountain submit an 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
- Short Term Plan (e.g.- two year)
- Relationship Between Consecutive Plans (2008 Plan to 2010 Plan)
- Public Participation

Staff reviewed each of these elements in the Company's 2010 IRP, as described in more detail below.

Demand Forecasting

Resource planning requires forecasting future load requirements. As in previous IRPs, the Company continues to consider 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 produces low case, base case and high case scenarios to evaluate the adequacy of its supply arrangements under a wide range of price and growth possibilities. Staff notes that by including detailed forecasts with multiple scenarios, the Company is better positioned to determine the adequacy and timing of the resources necessary to meet future demand.

Intermountain continues to estimate industrial demand by identifying each large volume contract customer's usage patterns and by surveying management to estimate each customer's projected natural gas usage. The projections incorporate survey information from the customer's engineers and marketing personnel regarding plant expansion or modification, equipment replacement, alternative fuel capabilities, and anticipated product demand. The Company looks closely at market trends and compares those to customer forecasts. Intermountain's 110 industrial customers are segmented into six 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. The load forecast for the low case scenario starts off significantly lower than the base case, so as a percentage of throughput, the Company's compound annual growth rate is slightly higher than the base case scenario.

Although industrial contract demand is expected to increase, the Company states that it will not increase Maximum Daily Firm Quantity (MDFQ) for its Large Volume Firm Services (LV-1) over the five-year period because the Company is limited by the amount of capacity available on Williams Northwest Pipeline. Additional interstate pipeline capacity would increase costs for all customers. Staff agrees that the Maximum Daily Firm Quantity (MDFQ) should not be increased at the expense of all customers. However, the Company should plan resources to accommodate additional Large Volume Services (LV-1) that are within the current MDFQ threshold.

Intermountain's Core-market customer growth forecast continues to be 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. As with the past several IRPs, the Company combines the results of a local third party economics forecast with data it collected on current customers to develop a forecasting methodology. The annual number of new Core-market customers is determined by taking the third party projection of houses added in each county, and multiplying it by "IGC's market penetration rate" calculated for each county.² Next, the Company determines the anticipated percentage of conversion customers by taking the "IGC conversion rate" calculated for each county, and multiplying it by that county's additional new construction customers.³ When the estimated number of conversions is added to the number of new residential homes, adjusted for "IGC's market penetration rate," the total number of expected residential customers is determined for each county. Virtually 100% of IGC's residential new construction customers are RS-2, meaning customers have at least a gas furnace and a gas water heater.

² The market penetration rate is the historical number of Intermountain customers relative to the number of residential households.

³ The conversion rate is the historical number of conversion customers relative to the number of residential new construction households. Staff questions whether the number of conversions should be based on the number of additional new construction customers, especially when new construction has deteriorated over the last couple years.

Intermountain determines the number of small commercial customers using the same methodology as 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%. For purposes of this IRP, the Company rounded this to 12% Company-wide. Similar to Staff's concern with forecasting the number of conversions using additional new construction customers, Staff questions whether the number of commercial customers are accurately forecasted by using the number of additional new construction customers.

When estimating customer usage, the Company must capture the influence of weather on demand. Intermountain continues to use a 65° F heating degree day (HDD) to calculate the two distinct types of heating degree days, Normal Degree Days and Design Degree Days. Both are calculated regionally based on historical data, but the Normal Degree Days represents the weather that would be expected to occur on any given day, and the Design Degree Day is an estimate of the coldest possible day that can be expected to occur on any given day. Intermountain's Design year is based on the premise that the coldest weather experienced for any month, season, or year will occur again. This is what the Company uses to develop its peak forecast models. Staff believes it is reasonable to plan resources assuming the coldest weather experienced will occur again.

The Company continues to study load trends so that it can better estimate the reaction of each class to price and daily weather. As with the last IRP, the Company still does not have technology to collect daily usage data by customer class, so to forecast the peak months, it calculated average usage per customer based on the total combined residential and small commercial send-out for each day. On page 34 of the IRP, the Company states that the Core-market group is non-homogeneous and that it "would like to test whether models developed based upon the individual customer classes would perform better for predicting peak usage per customer than models developed using total Core-market data." In order to evaluate intra-class variation in usage, the Company installed additional throughput measurement meters on targeted areas of the Sun Valley and Idaho Falls laterals. Unfortunately, multiple equipment

malfunctions caused data to be lost on both laterals. According to the Company's response to Production Request No. 26, a malfunctioning switch on the data collector caused the loss of the 2003/2004 SVL winter data, and an unidentifiable problem caused the loss of the 2005/2006 SVL winter data. Similarly, the 2005/2006 IFL winter data was lost due to failure of a battery pack on the data collector.

Intermountain did not explain how it improved forecasting based on the total daily usage data that was salvaged, or how it might reinstall equipment less susceptible to malfunctions. However, Staff notes that in each consecutive IRP the Company states that "the GS (General Service) customer class is very diverse, ranging from office buildings all the way up to small food processors." IRP, p. 36. Staff notes that the Company's more granular usage data was lost due to several equipment malfunctions, but as stated in the analysis of the last IRP, Staff believes a sample set of enhanced Encoder Receiver Transmitter (ERT) system data would provide intra-class daily usage information that would be beneficial for forecasting, specifically for the General Service customer class. Staff encourages the Company to continue evaluating the cost of an additional set of sample collector ERT units, so that the enhanced ERT system data costs can be accurately compared to the potential benefits.

Intermountain continues to look at the impact of a similar set of modeling variables. Even though weather and price are usually the most explanatory variables, the Company also tested other key variables. Some examples of these variables include: Consumer Price Index CPI, Bank Prime Loan Rate, Gross Domestic Product (GDP), Per Capita Personal Income, and the 30-year mortgage rate. As stated in the last IRP, Staff encourages the Company to look at a larger set of variables to forecast demand. Staff believes basic variables such as household size and persons per household are predictive. In the peak months (November through February), the correlation between weather and customer usage is strong. The typical customer on the system increased usage by 0.143 therms per degree day. When comparing customer usage by lateral, the Sun Valley lateral was roughly three therms per customer higher per degree day than the rest of the Company. Also, unlike other laterals, daily snowfall was one of the key explanatory variables used to estimate SVL usage. This may be because Sun Valley customers use natural gas for snowmelt. In order to better manage this capacity, the Company received approval to provide incremental snowmelt loads on an interruptible only basis, which will help to offset future demand during peak day loads. Order No. 31089, Case No. INT-G-09-3. In future IRPs,

Staff encourages the Company to continue comparing the difference in customer usage by lateral.

The Company continues to forecast non-peak usage using separate monthly usage models for each customer class. Specifically, total usage data for the month was divided by customers for that same month to arrive at usage per customer for a given month. During the non-peak months each class has dramatically different usage patterns, so the Company used a regression equation for each of the Core-market customer classes. Although weather was a less explanatory variable than in the peak models, it was included in all the models. Several of the same variables were tested as in the peak model, but aside from weather, the only other predictive variables were a two-year moving average price to forecast RS-2, and a winter usage trend to forecast GS. Staff is concerned regarding the limited number of variables to predict usage. Staff believes the Company should include more variables in its analysis of usage and consider modeling the intra-class differences in usage between each lateral, specifically for the GS class where customers are non-homogeneous.

Similar to Staff's recommendation for the last IRP, Staff encourages the Company to closely monitor how accurately its IGC Conversion Rate and IGC Commercial Multiplier Rate predict their intended regional categories over time. Because these rates are calculated based on the percentage of their respective categories relative to new residential home construction, Staff questions whether these interrelationships provide historically accurate projections given the housing industry's volatility. Given the dynamic economy, and the varying usages of commercial customers who might relocate or change operations, it is important to closely monitor forecasts. This is especially true of the Large General Service customers on the IFL that have the potential of becoming a Large Volume Firm Service (LV-1). Staff recommends that in future IRPs the Company provides a forecasted vs. actual comparison over the past several IRPs illustrating the number of conversions per class, number of customers per class, and usages. Comparisons should include the Large Volume Service (LV-1) customers, since they are technically Core-market customers. This is a fundamental part of evaluating the need for future resources and should be clearly displayed within each IRP filing. By providing this information, Staff can more accurately evaluate the forecasting methodology used by the Company for resource planning. An analysis of the Company's effort to track this in each IRP would also demonstrate a commitment to improvement.

Assessment of Efficiency Improvements (DSM Actions) & Avoided Costs

The Company continues to outline its DSM opportunities consistent with Commission 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 Order, 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 evaluating Intermountain's energy efficiency and DSM programs, Staff found that the Company continues to promote conservation using mail brochures, mass media, and its website. The Energy Conservation Brochure is mailed to every Core-market customer and can be viewed on the Company's website. The brochure provides information to customers on energy saving tips and loan programs like that of the Idaho Department of Water Resources, where customers can receive low-interest loans on energy efficient upgrades. Customers can view their most recent consumption history on the Company's website, and watch a 10-minute informational video with instructions on do-it-yourself installations and guidance for conservation and natural gas efficiency. The Company also provides copies of the video to community action agencies and others who counsel homeowners on wise energy use. Industrial customers utilize the Company's industrial password protected website containing up-to-date, hourly site-specific information to help them manage usage. This is especially useful for customers tracking and evaluating energy saving measures and new production procedures. Intermountain also worked with numerous organizations to further their respective energy efficiency research, outreach, and training.

In the future, Staff encourages the Company to provide specific information regarding the scope and magnitude of its partnerships, perhaps focusing on the time period between IRPs to explain how it assists or supports the agencies it identifies. Staff also believes in future IRPs, the Company should have a system in place to estimate the impact of its advertising (e.g. - hold out sample, customer surveys). Simply concluding, as the Company has, that its advertising has been successful because it "continues to see a decline in per customer usage and therefore believes that the messaging is having a positive response" does not accurately capture the impact of its advertising.

Based on its analysis, Staff believes the Company is continuing to make progress to conserve natural gas by finding and eliminating sources of lost and unaccounted for (LUAF)

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 several audits in place that help identify dead meters, malfunctioning meters, incorrect meter sizes, billing errors, and distribution line leaks. According to the audit results provided by the Company in its IRP, gas loss due to distribution line damage has dropped by 54% since 2007, and drive rate errors have dropped 58% over the same period. Although the number of dead meters and pressure errors has increased from 2007 levels, this is the first IRP where the Company has included a summary of its efforts to conserve LUAF natural gas. The audit results are telling and indicate that the Company, in addition to promoting natural gas conservation among customers, is making progress to keep its own LUAF natural gas low. Staff encourages these types of audits in future IRPs.

The Company continues to use an evaluation from 2007, when the Company engaged a third party consultant to help identify potential DSM opportunities using the total resource cost (TRC) test to identify cost effectiveness. The Company has been evaluating three potential DSM programs over the last several IRPs. One program is a natural gas conversion program that gives homeowners a \$30 rebate when they convert to a natural gas water heater from another energy source and install a .64-or-greater energy factor (EF) gas water heater. The other two are for existing customers. The first is a \$200 rebate when customers replace a below 90% efficiency natural gas furnace with a 90%-or-greater efficiency natural gas furnace. The second is a \$30 rebate when customers replace a .59-or-below EF natural gas water heater with a .64-or-greater EF natural gas unit. 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.

DSM includes behavior modification, building envelope improvement measures, and higher-efficiency natural gas equipment. Staff evaluated the Company's two primary goals in evaluating demand side management (DSM) programs, primarily: (1) to ascertain whether achievable and economically viable DSM could provide a reliable resource in Intermountain's peak-load management, and (2) to facilitate year-round improvements in natural gas usage. Staff notes both are important goals to determine whether potential deployment of DSM is viable. The Company will continue to offer a \$200 rebate when a homeowner installs a 90% or greater efficiency natural gas furnace at the time of a conversion.

Staff encourages the Company to deploy cost-effective DSM and to carefully conduct market research when it rolls out pilot programs. When determining the appropriate rebate levels and pilot markets, the Company should carefully evaluate: (1) the success of the messaging, (2) program acceptance, (3) recent installer costs, (4) potential free ridership, and (5) the processes for minimizing its administrative costs. The processes for reviewing programs should achieve results that clearly evaluate, measure, and verify (EM&V) the program's success. In addition, Staff encourages the Company to include all storage costs when determining the avoided cost calculation used as a benchmark for DSM savings. This is especially true for heat-sensitive conservation measures. Storage facilities offset more expensive winter purchases, and increase the Company's ability to meet a design day. As conventional storage facilities approach capacity, and LNG storage becomes the next available resource to offset high winter prices and meet potential peak, the avoided cost benefit of DSM programs will become more promising and should be examined regularly.

After reviewing Intermountain's DSM section, Staff has one disagreement with the Company regarding the deployment of Core-market, cost-effective DSM. On pages 76 and 77 of the IRP, the Company 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." In Production Request No. 32, Staff asked the Company to provide the Order number and specific Commission Order language to support the Company's belief it should not deploy any Core-market DSM programs. The Company cited Order No. 26546, Case No. INT-G-96-04, in response, specifically the following: "It is now apparent that some demand-side management programs which have or would have been deemed prudent only a short time ago, are, because of these changes (note: energy efficient practices, technology, and related standards) no longer supportable. We encourage the Company to review its other DSM programs to determine their necessity, cost/benefit ratios and effectiveness." The Company added the parenthetical language to Order No. 26546, indicating its own interpretation of the Commission's statement.

In Case No. INT-G-96-4, the Company proposed to: (1) place into effect a jointly administered (Niagara Conservation Corporation) new residential low-flow shower head and faucet aerator demand side management (DSM) program (w/related accounting procedures), and (2) reduce the rebate in the Company's existing residential water heater rebate program from

\$100 to \$50. Regarding the low-flow shower head and faucet aerator, the Commission was concerned with the equity of cost distribution, declining need for such a program, actual energy savings and measurement of those savings. Regarding the proposed decrease in the water heater rebate program incentive payment, the Commission was persuaded that new federal standards had eliminated the less efficient water heaters from suppliers, and the only heaters available exceeded the standards required by the Company's program. Based on these specific concerns, the Commission directed elimination of the low-flow showerhead pilot program, and terminated the Company's existing residential water heater rebate program.

Staff disagrees with the Company's interpretation of Order No. 26546. The Commission did not "order IGC not to deploy any Core-market DSM programs." Staff believes the Company should investigate all potential Core-market DSM for cost-effectiveness, and if a program is deemed cost-effective, the Company should deploy it. Staff recommends that the Commission clarify the intent of its language in Order No. 26546 regarding Core-market DSM programs.

Natural Gas Supply Options

The Company continues to categorize its supply of gas into traditional and non-traditional resources. Traditional resources come from conventional basins and typically depend on pipeline capacity to move gas to Intermountain's distribution system or storage facilities. Non-traditional resources are those that help supplement the traditional supply side resources during peak demand conditions. These may not come from an interstate pipeline supplier, producer, or interstate storage operator.

Intermountain continues to receive 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 continues to summarize a "drastic decline in reserves and production from regions that have historically been top producers." IRP, p. 51. Fortunately, new drilling technology has allowed 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 ten years out; however, when combined with new shale reserves, long-term production is expected to increase through 2024. Staff agrees that gas from the Northwest Territories and Alaskan North Slope are

at least ten years out, but notes that significant upward price pressure may expedite supply delivery from these basins.

The Company must purchase capacity on several interstate pipeline companies to transport gas from the supply basins to the Company's distribution system. Unfortunately, because pipeline bottlenecks have been eliminated, all of the natural gas that was once captive to this region is now available to the more expensive eastern markets. Supplies in Alberta, British Columbia, and Rockies flow east, so regional discounted prices are no longer available because the northwest now competes with higher prices in the midwest U.S. and eastern Canada. Staff believes 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.

As with the last IRP, the Company characterizes non-traditional supplies as resources that help supplement traditional resources. These include fuel oil, coal, wood chips, propane, portable LNG, and biofuel production. Although the Company may be able to use alternative supply at any time, the supply is optimally suited for meeting peak demand. There currently are industrial customers on the IFL with the ability to burn fuel oil and coal. Industrial customers are best able to make a material difference in demand because they are the only ones who use large enough volumes to significantly offset peak demand. If necessary, Intermountain could negotiate with its IFL industrial customers to use non-traditional supplies and reduce demand during peak periods. Staff encourages the Company to closely evaluate the ability of industrial customers on the IFL to use substitute fuels.

The Company also has a portable LNG unit to shave peak on the northern end of the IFL. In 2007, the Company built the infrastructure necessary to accommodate injections into the IFL, and in 2009, installed a permanent storage tank to alleviate reliance on tanker trucks. The portable equipment could be operational within 5 - 7 days anywhere in the Company's service territory, so it also acts to remediate shortages on the other laterals. Staff encourages the Company to closely watch the availability of LNG because if a prolonged peak event occurred, the Company would rely on trucking delivery beyond the storage tank's capacity. The Company's biofuel tests were promising and southern Idaho is positioned well given the number of dairy farms, a promising source of biofuel. Staff encourages the Company to continue investigating biofuel as an alternative resource.

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

Over the last decade, there have been fundamental changes and confusing market signals in the natural gas industry. The early part of the decade saw growing demand for natural gas, maturing supply basins, increasing challenges in finding new reserves, and interstate transportation bottlenecks. More recently there has been a short-term drop in demand, new shale reserves supplementing more mature basins, and interstate pipelines expanding transport capacity to higher priced eastern markets. Even though supply is forecasted to remain plentiful for the foreseeable future, wellhead gas prices have shown considerable volatility over the last ten years. According to the Company, demand for natural gas has caught up to the deliverability of the fuel. While there is enough production and delivery capability to meet the demand, it now takes more drilling and more wells to maintain capacity. Anticipated climate change legislation may exacerbate the fundamentals of natural gas purchasing and supply, specifically due to the upward pressure on prices from increased natural gas fired electric generation.

Similar to the last IRP, Intermountain continues to mitigate risk associated with the changing industry and provide a level of efficiency and security not otherwise achievable. Intermountain has developed a forecast for planning that includes a low, base and high case gas price forecast. The Company uses these forecasts, along with different customer growth scenarios, in a linear programming model that evaluates all its resources and selects the most cost effective mix of supply and transportation resources to meet demand. Staff notes that by evaluating the most cost effective mix of resources with several scenarios, the Company is better positioned to determine the most cost-effective resources to meet future demand.

Intermountain continues to utilize three geographically diverse underground storage facilities located 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. During every Purchase Gas Adjustment (PGA), Staff analyzes the Company's ability to hedge 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 more stability to customers, minimizing the amount of year-round interstate

capacity, and allowing the Company to serve the winter peak while minimizing year-around firm gas supplies.

As discussed in the last IRP, the Company has two conventional LNG facilities, one owned by Northwest Pipeline located near Plymouth, Washington, and a Company-owned facility near Nampa, Idaho. When Staff analyzed the design weather optimization model, the Nampa LNG facility is not selected for withdrawals through 2015; however, all storage except 10,000 Dth of Plymouth was completely utilized on the peak day. The Nampa LNG facility is intended as a needle peaking resource to protect customers in situations where capacity is unavailable due to weather-related outages. Because the facility sits behind the citygate, during any period of supply or interstate capacity failure, Nampa withdrawals would be unaffected by off-system events. As previously mentioned, the Company also has a portable Rexburg satellite LNG facility that can be located conceivably anywhere a tanker truck can go. Currently the satellite LNG is necessary on the IFL to remediate the potential near term peak day supply deficits.

According to Staff's analysis 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, minimizing the credit risk inherent in the implementation of certain price risk reducing strategies. The Company has documented the processes, procedures, and evaluation of resources. Staff considers this section sufficiently covered within the IRP.

Integration of Demand and Resources

The Company integrates its peak day demand forecast with its existing distribution capacity to determine when deficits would occur on each lateral if it were to forego corrective action. This is how the Company balances its plan to acquire resources, and addresses the timing of shortfalls. However, the Company continues to model a peak day event, or the four days surrounding its potential peak day, so it can plan its resources accordingly. Staff notes that by modeling the four days surrounding its potential peak day, the Company is better positioned to determine the adequacy and timing of the resources necessary to meet demand during a weather event.

Intermountain 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). These customer growth scenarios are combined with the Company's price scenarios and design weather estimates to determine the peak day load growth forecasts.

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 Canyon County Lateral (CCL) and State Street Lateral (SSL) have no deficit during the five-year plan when compared to the Company's peak day scenarios on each lateral to the existing lateral's capacity. According to the IRP, the Idaho Falls Lateral (IFL) and Sun Valley Lateral (SVL) have deficits that start in 2011 and continue to grow through 2015 under all scenarios. During a peak day event scenario, the IFL deficits increase at an average annual rate of 3,098 Dth under low growth, 3,767 Dth under base case, and 6,161 Dth under high growth. However, after Staff's review of the resources considered in these scenarios, Staff discovered the Company's deficit on the IFL does not include 19,000 Dth of peak withdrawal capability at the Rexburg satellite LNG facility. When Staff included the withdrawal capability of the satellite facility in the Company's resource portfolio, Staff's analysis found that the Company has enough capacity through the five-year plan to cover the deficits during a high growth peak day event scenario. The Company also expects to add another satellite LNG storage tank in 2012 that will increase the amount of on-site LNG storage available, so if a longer peak event would occur, the Company would be less dependent on trucking deliveries.

During a peak day event scenario, the SVL deficits increase at an average annual rate of 311 Dth under the low growth, 410 Dth under the base case, and 684 Dth under the high growth scenario. The Company 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 according to Staff's analysis, adds enough capacity through the five-year plan to cover the Company's potential deficits during a high growth peak day event scenario.

Staff is confident of the Company's ability to allocate necessary resources according to the magnitude of forecasted future deficits. Staff encourages the Company to work closely with city leaders on the IFL to ensure its forecasted growth is accurate, so that Core-market growth does not outpace its ability to supply gas using the Rexburg satellite LNG facility. 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.

Short-Term Plan (e.g. – two year)

In the last IRP, Staff recommended that Order No. 25342, p. 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.” Staff reasoned that the information in the five-year plan provided information to adequately fulfill the two-year plan’s purpose, and the filing of a two-year plan within the Company’s five-year plan resulted in duplication that did not improve the overall plan. Intermountain agreed with Staff’s recommendation to remove the two-year plan from future IRPs to eliminate the redundancy. The Commission concurred and stated: “Although the IRP is a five-year outlook and a more focused evaluation might seem beneficial, the IRP is filed every two years, which requires the Company to re-evaluate its five-year outlook on a biennial basis. Under these circumstances, the Commission finds that inclusion of a two-year plan is redundant.” Order No. 30643, p. 8. Therefore the Company did not provide a two-year plan as part of this IRP filing.

Relationship between the Plans (2008 IRP vs. 2010 IRP)

The Company discusses the differences between its key planning components in the Company’s comparative analysis between IRPs. Staff’s analysis concludes that the planning processes between IRPs are predominantly similar, although the Company highlighted some significant changes and differences in outcomes. One notable difference includes the incorporation of an additional distribution segment in the analysis. The Company added the State Street Lateral (SSL) into its planning. This lateral is a sixteen-mile stretch of high pressure transmission main that begins in Caldwell and runs east along State Street in to 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. Staff agrees that given the planning requirements necessary to make capacity upgrades, it is important to include this lateral separately in its planning. Regarding DSM, the Company summarizes discussions with Staff that have taken place since the 2008 IRP, specifically regarding the funding of low income weatherization programs for customers heating with natural gas. These conversations are

expected to continue as the parties explore the timing, implementation, and implications of a weatherization program.

In the 2008 IRP, Staff recommended that the Company work on clearly illustrating progress in methodology and program design between IRPs. Although the information in the comparative analysis fulfills the necessary IRP requirements, the Company can make additional progress to illustrate efforts to advance its methodologies. This comparative evaluation does a better job of not restating what was previously discussed in the body of the document, but still leaves the reader with little indication of progress in the planning methodology between IRPs. In the next IRP, Staff encourages the Company to include a more detailed discussion in each section, summarizing how the trends and outcome of the last IRP were used to advance future planning or program design in the current IRP.

Public Participation

Although Staff believes the Company satisfies the requirement for public participation in the IRP process, Staff encourages the Company to be more proactive in promoting public feedback for the IRP planning process. 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 informed Staff it had two IRP public meetings, one of which was attended by only one person. By comparison, Avista has four IRP public meetings to receive public feedback, and generally has high participation. The Company should consider: (1) having more meetings, (2) new ways of promoting participation in the meetings, and (3) moving the meetings to more desirable locations and times that facilitate public attendance.

In Production Request No. 9, Staff asked the Company if it had notified city leaders of its IRP filing. In response the Company stated:

While city leaders, as such, are not included on the Company's IRP service list, Intermountain is committed to notifying and including city leaders and the general public when appropriate to do so. For example, when the Company proposed the Sun Valley Area Hook-up Fee project, city leaders from affected municipalities were notified and public input was considered. Also, when the Company built the Rexburg satellite LNG facility a public forum was held to give customers and other interested parties the opportunity to participate in the process. Intermountain will continue to invite the public to participate in its IRP process where information relating to capacity constraints is discussed. Over the years the Company, like all infrastructure

dependent businesses, has built and/or constructed countless projects, some large but most small, to improve or maintain service to customers and it is simply not reasonable to contact the public for every such project. The Company is committed to excellent customer service and will continue to notify the public when appropriate situations transpire.


Staff agrees with the Company that notifying the public of infrastructure projects should be at its discretion. Nonetheless, Staff recommends that the Company notify city leaders in advance of future IRP public meetings and filings. This is particularly important on the IFL, where Intermountain may have to make arrangements to meet the demand of new Large Volume and transportation customers. City leaders are key stakeholders that represent the communities Intermountain serves, and should be an integral part of the IRP planning process. They undoubtedly have local knowledge about Intermountain's customer base that contributes to capacity planning and goes beyond the Company's third party forecasts. The Company has not requested a general rate increase for several years, and Staff believes that city leaders who are involved in the IRP process will have a better understanding of the issues commonly presented in a general rate case.

STAFF RECOMMENDATION

Staff recommends that the Commission acknowledge the Company's IRP as fulfilling the necessary requirements. However, Staff recommends that:

- (1) In future IRPs, the Company provides a forecasted versus actual comparison over the past several IRPs illustrating the number of conversions per class, number of customers per class, and usages;
- (2) The Commission clarify the intent of its language in Order No. 26546 regarding future Core-market DSM programs;
- (3) The Company notify city leaders in advance of future IRP public meetings and filings.

Respectfully submitted this 29th day of November 2010.



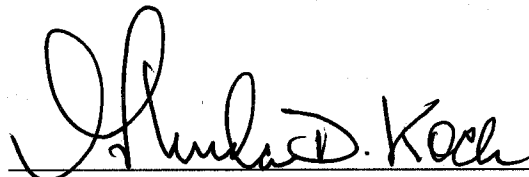
Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Matt Elam
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29th DAY OF NOVEMBER 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. INT-G-10-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE