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## **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF INTERMOUNTAIN GAS</b>	)	
<b>COMPANY'S 2013-2017 INTEGRATED</b>	)	<b>CASE NO. INT-G-13-03</b>
<b>RESOURCE PLAN.</b>	)	
	)	<b>COMMENTS OF THE</b>
	)	<b>COMMISSION STAFF</b>
	)	

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The Staff of the Idaho Public Utilities Commission comments as follows on  
Intermountain Gas Company's Application.

### **BACKGROUND**

On February 28, 2013, Intermountain Gas Company filed its Integrated Resource Plan ("IRP") for the years 2013-2017. The Company provides natural gas service to more than 315,000 customers in southern Idaho. Every two years, the Company files an IRP that describes the Company's plans to meet its customers' future natural gas needs. The IRP must discuss the subjects required by Section 303(b)(3) of the Public Utility Regulatory Policies Act of 1978 ("PURPA"), as amended, and Commission Order Nos. 25342, 27024, 27098, and 30643. In summary, these four Commission Orders direct gas utilities to file biennial IRPs that include:

1. A forecast of future gas demand for each customer class, which includes the number, type, and efficiency of gas end-users as well as effects from economic forces on gas consumption;
2. An analysis of gas supply options for each customer class, which includes a projection of spot market versus long-term purchases for both firm and

interruptible markets, an evaluation of the opportunities for using company-owned or contracted storage or production, an analysis of prospects for company participation in a gas futures market, and an assessment of opportunities for access to multiple pipeline suppliers or direct purchases from producers;

3. A comparative evaluation of gas purchasing options and improvements in the efficient use of gas based on a consistent method for calculating cost-effectiveness, which considers the total costs of each resource including externalities;
4. An explanation of whether or not there are cost-effective Demand-Side Management (“DSM”) opportunities;
5. The integration of the demand forecast and resource evaluations into at least a five-year integrated resource plan describing the strategies designed to meet current and future needs at the lowest cost to the utility and its ratepayers;
6. A progress report that relates the new plan to the previously filed plan; and
7. Public participation.

Intermountain Gas divides its IRP into several sections to fully illustrate how it plans to meet its future load requirements given three different demand scenarios. The Company includes the influence of weather on its system, and its ability to use both traditional and non-traditional supply side resources to meet demand.

## **STAFF REVIEW**

The Company identifies distinct geographic regions or “Focus Zones” within its service territory: Idaho Falls Lateral (“IFL”), Sun Valley Lateral (“SVL”), Canyon County Lateral (“CCL”), and State Street Lateral (“SSL”). Each region has unique characteristics the Company continuously monitors. For example, the SSL is closely surrounded by residential and commercial structures that create a difficult situation for construction and/or land acquisition, whereas the SVL has almost its entire demand at the far end of the lateral away from the gas source.

Since the last IRP, the Company has enhanced its distribution capacity on two laterals. It increased capacity on the IFL by adding a 16” pipeline around the city of Idaho Falls, and increased the capacity toward the end of the SVL by adding a compressor station. In this IRP, the only planned upgrade to the Company’s distribution system is the Orchard-Farmway Loop in the fall of 2014. The 7.8 mile loop on the CCL will circumvent a single, undersized, bottleneck

which has been identified as the weakest point in the system. With this enhancement, Intermountain's distribution system has enough capacity to meet peak demand on all of its laterals through 2017.

#### Demand for Natural Gas

The first part of the Company's resource plan is forecasting future load requirements, which is a function of the number of customers and per customer use. The 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 uses the housing forecast from a third party economist to estimate the number of potential natural gas installations, fuel conversions, and business additions. According to the Company, the majority of new households will likely use natural gas if it is available, and new businesses will be added to serve them.

Core market use per customer is based on weather sensitive and non-weather sensitive demand. Weather sensitive demand is any usage above base usage, measured as a function of heating degree days. Non-weather sensitive usage is not a function of weather but depends on factors that are more difficult to measure. Intermountain's heating degree day calculation is based on 65°F, and utilizes seven National Oceanic Atmospheric Administration weather stations to capture variations in regional weather. Intermountain notes that having distinct degree day calculations for each of its segments allows better forecasting in areas of the system with unique weather characteristics. The results are used to calculate two distinct types of heating degree days: "Normal Degree Days" and "Design Degree Days." 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 in 50 years. The Company notes that the underlying premise for peak forecast planning is that the coldest weather experienced for any month, season, or year will occur again. As with the past several IRPs, Intermountain used the probability analysis of a third party climatologist to develop the extreme weather event and the days surrounding it. However in the 2010 IRP, peak usage per customer was based on data from 1989 through 2009. In the current IRP, the Company uses a shorter and more recent time series ranging from 2000 through 2010 to help account for structural shifts in usage. Staff believes it is reasonable to use a shorter and more recent time

series because it more accurately captures changes in usage from building standards and behavioral shifts.

The Company forecasts its industrial demand by doing load research and evaluating the surveys it sends out to management of its existing industrial customers. The surveys incorporate information from the customer's engineers and marketing personnel regarding plant expansion or modification, equipment replacement, alternative fuel capabilities, and anticipated product demand.

All of the Company's forecasts are developed using varying customer growth rates, gas prices, and weather scenarios. The Company's sensitivity to these changes is shown in three distinct forecasts: the low growth scenario, base case forecast, and high growth scenario.

The economic downturn and its impact on housing and business growth resulted in lower demand projections when compared to the 2010 IRP. In the 2010 IRP, forecasted annual load growth on Intermountain's system over the five-year period was expected to average 2.03% for the low growth scenario, 2.26% for the base case scenario, and 2.57% for the high growth scenario. By comparison, annual load growth over the five-year period for this IRP is expected to average 1.02% for the low growth scenario, 1.04% for the base case scenario, and 1.07% for the high growth scenario. Even though demand is not projected to grow as quickly as previously anticipated, growth is still expected in residential and commercial customer totals, and growth in industrial firm transportation.

The Company also provided data to satisfy one of Staff's recommendations noted in Comments for the last IRP. Specifically, the Company provided 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 had recommended that the Company provide this information because the Company projects commercial customer growth based on new residential home construction, and Staff questioned whether these relationships provide accurate projections given volatility in the housing industry.

Under Order No. 25342, the Company must provide future gas demand forecasts that examine the effect of economic forces on the consumption of gas and address changes in the number, type and efficiency of gas end-uses. Staff evaluated the Company's demand forecasts given the methods it uses to forecast demand. Staff believes the forecasts are reasonable and can adequately be used to determine the Company's resource options; therefore, Staff believes Intermountain's demand forecasts satisfy Order No. 25342.

### Demand-Side Management (DSM)

Intermountain says it continues to promote the efficient and direct use of natural gas. The Company evaluates DSM based on two goals: 1) to ascertain whether achievable and economically viable DSM could provide a reliable resource in the Company's peak-load management; and 2) to facilitate year-around improvements in natural gas usage. The first goal looks primarily at the cost of DSM employed to reduce peak demand, whereas the second looks at improvements in the overall usage necessary to avoid having to build additional infrastructure such as distribution pipe, compressor stations, and storage. It also considers the possible benefit to customers of capacity releases, and the avoided costs of having to purchase additional pipeline capacity and commodity to meet growing demand.

In this IRP, the Company updated a prior study using a third party evaluator to assist in reviewing a full spectrum of DSM opportunities. The Company will continue to offer a \$200 rebate for customers converting to natural gas if they purchase a 90% or greater efficiency furnace. However, the Company will not implement three other pilot programs it considered offering following the last IRP. The Company notes the significant changes in the natural gas market, which have led to a 40% price reduction since 2008. Intermountain believes the previously considered pilot programs will not provide the benefits estimated under the significantly higher gas prices assumed in the previous IRP.

Staff believes the Company continues to evaluate DSM as a resource equivalent to supply-side resources and outline its opportunities consistent with Commission Order No. 27098. That order allows the Company, in its biennial IRP, to address efficiency measures given a "general explanation with each IRP filing of whether there are cost effective [DSM] opportunities." Order No. 27098, p. 2.

### Lost and Unaccounted For (LAUF) Gas

LAUF gas is the difference between volumes of natural gas delivered to the distribution system and volumes of natural gas billed to customers. Potential sources of LAUF gas vary, but it primarily is due to meter malfunctions that cause measurement error at the citygate or at customers' meters. LAUF gas may also occur if the Company's billing system is incorrectly programmed, or if an industrial customer has changed its demand and, consequently, has an incorrect meter size. When known leaks and line breaks occur between the citygate and customers' meters, the Company completes a Gas Loss Report for each line break, which

includes an estimate of total natural gas lost during the break. These reports are totaled at the end of the year and then subtracted from the annual LAUF gas statistics.

The Company says it regularly compiles different audit results to identify the cause of LAUF gas. One audit at the citygate compares the measurements from meters on the Company's distribution system to Northwest Pipeline's meters. During each billing cycle, another audit identifies customers whose usages appear low relative to historical usage. When the account is identified, it is first followed up with a phone call and then, if necessary, by a service technician. Reports are also generated that allow the Company to audit billed consumption for a given meter size. Since the billed volumes should correlate with the meter size, this audit sometimes identifies malfunctioning meters and at other times identifies errors in the Company's programming that translates metered consumption to billed consumption. The Company believes these auditing measures and its normal meter rotations have allowed it to continue identifying LAUF gas.

In Order No. 30649, the Commission permitted the Company to recover a maximum of 0.85% of its total throughput as LAUF gas. In addition, the Commission ordered the Company to submit quarterly reports outlining: 1) the Company's framework for how it has tested for, identified, and remediated equipment measurement errors or leaks; and 2) the business process for alleviating measurement errors through its financial accounting of nominations, scheduling, measurements, flow volume allocation, and billing. Since then, Commission Order No. 30913 has allowed the Company to file the reports semi-annually instead of quarterly. As directed, the Company has also worked with Staff to improve its LAUF gas by outlining steps toward identifying the sources. Staff believes dialogue with the Company on how to identify LAUF gas should continue. However, because the Company has started using the IRP to discuss the steps it takes to identify LAUF gas, Staff believes it would be appropriate for the Commission to discontinue the Company's semi-annual reporting requirement. Instead, Staff believes the statistical summary the Company has historically included in its semi-annual reports should be shown in the Purchased Gas Adjustment ("PGA") filing as a separate exhibit. This approach allows Staff to monitor trends in the Company's LAUF gas on an annual basis, and eliminates the duplication in the semi-annual reports and the IRP. Even though the Company's LAUF gas approached the maximum allowable amount in last year's PGA and Staff noted concern over the year-to-year volatility, Staff believes that eliminating the semi-annual reporting will not harm

customers. Staff believes it will continue to have the opportunity to adequately monitor the Company's LAUF gas trends.

#### 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, whereas non-traditional resources help supplement the traditional supply side resources during peak demand conditions. Most of the traditional supply comes from the Rockies Basin and is transported to its citygates through Northwest Pipeline, an interstate transportation provider whose pipeline runs through Intermountain's service territory. However, the Company also moves gas from Canada to Northwest Pipeline by utilizing capacity on Gas Transmission Northwest (GTN), TransCanada's Foothills Pipeline system (Foothills), and its Alberta system known as Nova Gas Transmission (Nova).

Intermountain divides its non-traditional resources into two types: 1) alternative energy supplies not received from an interstate pipeline supplier, producer or interstate storage operator; and 2) capacity upgrades within the distribution system that enhance the ability to flow gas during periods of peak demand. The alternative energy supplies considered in the IRP are fuel oil/diesel, coal, wood chips, propane, and portable liquid natural gas ("LNG"). The capacity upgrades that are considered include pipeline loops, pipeline uprates, and a compressor stations.

The Company has several hedging strategies utilizing financial and physical delivery contracts to reduce the Company's exposure to price volatility. Similarly, the Company utilizes Jackson Prairie (JP) and Clay Basin underground storage to reduce price volatility and allow it to hedge high winter gas prices. The Company also has the Plymouth and Nampa LNG facilities that primarily act as an insurance policy to meet peak day.

Staff believes the Company sufficiently addresses its supply-side options in the IRP, and that it continues to look for opportunities to diversify and protect customers from market volatility.

As with the last IRP, the Company's traditional supply forecasts predict growing supplies because of shale gas. The lower commodity costs once captive to the Northwest because of pipeline constraints are now being made available to larger markets. This trend is expected to continue, resulting in more market liquidity but may cause less favorable pricing for the



Northwest. Consequently, the Company plans to shift its purchasing strategy to shorter termed spot or index contracts. According to the Company, this will allow it to balance supplies with seasonal demand and take advantage of price shifts without having excess supply during off-peak periods. Intermountain plans to continue hedging higher priced winter gas using conventional underground storage. It also plans to continue using its non-traditional LNG supply to meet a needle peak supply, and avoid purchasing year-round interstate transportation capacity. Staff believes it is reasonable for the Company to avoid purchasing year-around interstate transportation capacity if its non-traditional LNG supply can be used to meet the needle peak supply.

#### Integrated Resource Portfolio

The Company attempts to minimize customers' costs by utilizing an optimization model to evaluate and select the best mix of resources to meet its forecasted loads over the planning horizon. The optimization model evaluates four different components: 1) demand forecast; 2) supply resources; 3) transportation capacity resources; and 4) supply prices. Intermountain builds its supply portfolio based on several purchasing strategies given its forward market projections in order to determine the most reliable and economical option for customers. The Company states that as the "natural gas market continues to mature, liquidity at the purchases [*sic*] points Intermountain utilizes has allowed for more flexibility in the structure of the portfolio." IRP, p. 53.

With the addition of resources since its last IRP and the addition of the Orchard-Farmway Loop in 2014, Intermountain maintains that its existing resources are sufficient to meet all the design weather scenarios over the five-year planning period. Intermountain anticipates it would cost \$110,960 in variable interstate transportation costs to meet a design day that occurs in 2013, whereas it estimates the total transport cost of providing service would be \$124,068,359. Similarly, if a design day were to occur in 2017, the Company anticipates its variable interstate transmission costs would be \$134,563, compared to the estimated total transport cost of providing service of \$195,003,190.<sup>1</sup> Intermountain states that it will continue to anticipate changes in future demand requirements to plan for the use of existing resources and the timely

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<sup>1</sup> Staff discovered an error in the Company's optimization reports submitted as Exhibit 4, Tables 5.1 and 5.5. Subsequently, the transportation costs used by Staff in Comments do not reflect the Company's original exhibit, but instead reflect the Company's corrected version of its original exhibit.



acquisition of additional resources. Even though lower natural gas prices are expected to remain, Intermountain also states that it will continue to promote the efficient, direct use of natural gas wherever possible.

Staff believes that the Company's IRP adequately satisfies the Commissions requirements. Specifically, the Company integrates its demand forecast with its resource evaluations to develop a five-year integrated resource plan, and then describes the strategies designed to meet current and future needs at the lowest cost to the utility and its ratepayers.

### 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." Staff noted low public participation at meetings for the Company's last IRP; consequently, Staff Comments encouraged the Company to be more proactive in promoting public participation in the IRP planning process. Similarly, the Commission noted that the Company "should provide appropriate notice to city and county leaders as part of the process." Order No. 32139.

The Company had two meetings during the current IRP cycle, one in Boise and another in Idaho Falls. Staff reviewed the notification lists, the attendee lists, and notable public feedback gathered by the Company for both meetings. Not including Intermountain's employees, 19 people were invited to the Boise meeting. Of those invited, 11 people attended. Similarly, 34 people were invited to the Idaho Falls meeting. Of those invited, 16 people attended.

The Company invited Mayors, Councilmen and various city leaders to its IRP meeting in Idaho Falls, but did not appear to notify local Mayors and Councilmen of its Boise meeting. Staff believes the Company should have notified these key stakeholders of its Boise meeting, particularly since in 2014, the Company plans to add the Orchard-Farmway Loop to its Canyon County lateral. In Order No. 32793, the Company was recently granted authority to sell LNG from its Nampa facility. The purpose of the IRP planning process is to inform key stakeholders that represent the communities Intermountain serves, and to facilitate participation and comment.

As part of Staff discovery, the Company was asked to provide any notable public feedback it received from city and county leaders regarding the IRP process. According to the Company, "a representative from the City of Rexburg became concerned that Intermountain

Gas' IRP planning process did not adequately account for the long-term growth anticipated in the Rexburg area." It was explained by the Company that the IRP's five-year planning horizon is revised every other year to include updated growth projections, and that currently there is more than adequate natural gas delivery capacity for the Rexburg area. This kind of dialogue is valuable and should be encouraged. By comparison, Avista has four IRP public meetings to receive this kind of feedback, and generally has high participation. Staff believes the Company met the basic requirements to provide an opportunity for public participation and comment, but believes it could do more to improve public participation and feedback in the IRP.


### STAFF RECOMMENDATIONS

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

(1) In future IRPs, the Commission require a LAUF gas section explaining the Company's (a) framework for how it has tested for, identified, and remediated equipment measurement errors or leaks, and (b) business process for alleviating measurement errors through its financial accounting of nominations, scheduling, measurements, flow volume allocation, and billing; and

(2) The Commission no longer require that the Company file its semi-annual reports on LAUF gas, but instead require the Company to include an exhibit in its annual PGA summarizing the statistics that have historically been reported in its LAUF gas semi-annual reports.

Respectfully submitted this 8<sup>th</sup> day of July 2013.

  
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Karl T. Klein  
Deputy Attorney General

Technical Staff: Matt Elam

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8<sup>TH</sup> DAY OF JULY 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. INT-G-13-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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