

Washington Utilities and Transportation Commission

Docket No. UG-030312

Comments on draft changes to WAC 480-90-238:

WUTC Integrated Resource Planning Requirements for Natural Gas Utilities

1. The Treatment of Portfolio Risk Differs for Natural Gas and Electricity:

The Commission Staff appears to intend to move the analysis of portfolio risk into the IRP venue rather than address price volatility risk in the context of gas PGAs and electric PCAs. See **Sections (2)(b) and (3)(d)** of the draft WAC 480-90-238 for natural gas. The case for analyzing electric price risk and power cost tradeoffs in the context of long term electric planning is understandable. Electric Utilities must evaluate portfolios with varying degrees of dependence on power markets and varying proportions of utility owned or purchased generation of various types. Electric price variability is addressed through long-term capital budgeting choices and to a much lesser extent through near term financial hedges.

The situation is different for natural gas. Gas utilities rely completely on gas markets. Gas utilities can't construct sources of gas -- except by purchasing reserves in place -- gas utilities can only diversify their gas purchasing arrangements. Wholesale price volatility is dealt with using hedging strategies, a diversity of supply sources in a variety of gas production regions and hubs, and a diversity of contract lengths. Gas LDCs may shield customers from the effects of price volatility through hedging, but the expected outcome is that gas utilities and their customers will simply pay market price for commodity gas when evaluated over a long period of time.

Gas supply portfolio analysis belongs in the materials supporting gas cost tracking adjustments. Evaluation of capital investment choices between various demand- and supply-side resources belongs in the Integrated Resource Planning process. Northwest Natural sees the IRP process as a capital stock optimization process not a near-term portfolio optimization effort. It properly focuses on the means of transporting and storing natural gas (or its alternatives) and ways of reducing the demand for natural gas. Reducing the demand for natural gas can take the form of capital stock changes that improve the efficiency of gas use, and a variety of methods for modifying the demand for gas through behavior changes.

Regardless of how we approach portfolio optimization in the PGA process, we will pay market price for commodity gas. The appropriate risk/cost tradeoff to be analyzed in the IRP process involves the risk (eventual cost) of not acquiring/encouraging cost-effective energy efficiency improvements because of underestimating the future cost of using natural gas.

2. Other observations with respect to Washington IRP rule changes:

Does staff interpret **Section (3)(a)** as requiring utilities to develop end-use models? End-use models are very expensive to develop and maintain and don't really contribute much of value. We note that the Northwest Power and Conservation Council abandoned their use of end-use modeling approaches. We support Avista's suggestion that would replace the references to numbers and types of end uses with the notion that the IRP should recognize trends in end-use consumption (Kelly Norwood letter, May 13, 2005, p. 2).

Does staff interpret **Section (3)(c)** as requiring a separate analysis of gas supply options for residential, commercial, industrial firm, and interruptible customer classes? There is no reason to separate the residential, commercial, and industrial firm classes. Northwest Natural suggests that there is no reason to plan at all for the interruptible class since almost the entirety of interruptible volumes are transported with the planning function performed by other parties. Even a massive return to interruptible sales service could be dealt with on short notice. Once customers have made investments in alternative fuel capability, the expectation is that requests to return to firm service will be infrequent and not require explicit consideration in gas IRPs.

Section (3)(d): An inappropriate emphasis is placed on "*gas purchasing options*" when the emphasis should be on investments in gas interstate and intrastate infrastructure traded off against improvements in the efficiency of gas use. It would be better to use the phrase "*gas supply-side options*" in this section. Similarly, in Section (2)(a), the phrase "*purchasing gas*" should be replaced by "*supplying gas*".

For the evaluation of long-lived energy efficiency investments what is needed are a range of long-term commodity cost forecasts. These forecasts can be expressed as expected prices at alternative trading hubs using basis differentials. Seasonality can also be introduced allowing the evaluation of energy efficiency investments with different seasonal load factors. This has little to do with the evaluation of "gas purchasing options".

Section (3)(d) fails to recognize or mention environmental externalities, global warming risks and energy industry carbon dioxide releases. Even if consideration of green house gas releases is not incorporated into Washington's IRP rule for gas utilities, NW Natural expect to continue address GHG concerns in its IRPs.

Section (4): Northwest Natural's experience suggests that producing plans on a strict 2-year cycle is a misallocation of company and Commission Staff resources. Depending on changing events, sometimes 2-years is necessary -- sometimes events don't change and a longer period between plans is called for. The opportunity or need for Long-term commitments to construct, or contract for, enhancements to gas deliverability trigger the need for a IRP update. Changes in gas procurement strategy and tweaks in the manner in which gas is purchased is the proper subject matter for gas cost tracking filings -- not for long term planning or changes in long term plans.

Northwest Natural suggests that Plans be followed with an annual load forecast update and an annual evaluation of planning assumptions. In this way, strict adherence to a two-year planning cycle can be avoided when it is beneficial to do so. When the gas IRP environment is stable, as many as four years should be allowed between major plan revisions. Finally, there is no reason to tie the gas IRP planning cycle to the electric two-year planning cycle.