

## **NW Natural Gas Company's 2011 Modified Natural Gas Integrated Resource Plan Docket UG-100245**

As a natural gas utility operating in Washington, NW Natural Gas Company (NW Natural or Company) has a fundamental responsibility to manage the risks and opportunities associated with acquiring and delivering natural gas on behalf of its customers. This responsibility is particularly important in an era of wavering load growth. The planning requirements specified in WAC 480-90-238 are intended to help each utility develop a strategic approach to navigate marketplace opportunities and risks based on that utility's unique attributes. NW Natural's 2011 Modified Integrated Resource Plan (the Plan) represents such a strategic approach. As such, it is consistent with the Utilities and Transportation Commission's (Commission) planning regulations. Below we discuss how the Plan addresses the requirements for integrated resource plans (IRP).

### **Gas Requirements Forecast**

The Company expects an average annual load growth rate of 0.6 percent (net of demand side management (DSM)) on a system-wide basis for the 20-year planning horizon and an average annual load growth rate of 1.7 percent for Washington, net of DSM. The Company expects the average annual peak day load growth rate, net of DSM savings, to be 0.7 percent on a system-wide basis for the 20-year planning horizon and to be 1.7 percent for Washington. The higher Washington growth rates are driven by the Company's higher estimates of customer growth rates for Washington. The Company projects a customer growth rate of 1.7 percent for Oregon and a 2.7 percent growth rate for Washington and Dalles, Oregon.

The Company reports that Portland, Oregon, is 61 percent of its customer base and Washington is slightly lower than 10 percent. NW Natural relies on the Oregon Office of Economic Analysis (OEA) as well as the Northwest Power and Conservation Council in developing its forecasted load data. In previous IRPs, the Company has stated that it relies on OEA data for the Portland area to develop a projection for the Vancouver, Washington service territory. If this is the case in this Plan and considering the size of the Portland service territory, we are uncertain how the Oregon service territory growth rates can be significantly lower than the Washington service territory without a considerable differential in customer growth between the Portland and Vancouver service areas. Data in Appendix 2.1 of the Plan for the ten year period 2009-2019 show Portland customer forecasts to grow 17 percent while the combined Vancouver and The Dalles service territory customer forecast grows at 30 percent for the same period. The Plan is silent on how OEA data or Northwest Power and Conservation Council information are used in creating this differential in customer growth rate.

- In its next IRP, the Company should provide an analysis of what drives the differential in expected growth rates between the Portland and Vancouver service territories.

The Company includes a Low Growth Case to represent growth rates due to a continued economic malaise. The Low Growth Case shows much a lower load growth rate during the 2011 to 2018 timeframe with a return by 2019 to the growth rate of the Base Case. We consider this a useful scenario with an over-weighted probability compared to the high growth case. We encourage the Company to give its Lower Growth Case additional consideration as it weighs resource acquisition plans.

### **Supply-Side Resource**

The Company thoroughly explains its existing resources. The Company's Plan uses a comprehensive list of future available resources from which the linear programming model SENDOUT may choose.

In this Plan, the Company decided not to include the Encana transaction, stating that doing so would be problematic and unhelpful. The Company states that, for multiple reasons, the Encana transaction does not specifically alter the modeling or analysis of supply options from what would be shown in the absence of the Encana joint venture. We agree that not including the Encana joint venture as a supply-side resource in this IRP is the best course of action.

### **Demand Side Resources**

The Plan determines a DSM technical potential of 9.7 million therms for the residential customer class over the 20-year planning horizon. The DSM technical potential is 4.8 million therms for the commercial customer class and 0.3 million therms for the industrial class. The tables in the Plan that present DSM measures with their total savings and expected cost per therm provide an excellent focus on the key elements of the Company's energy efficiency program.

The Plan considers approximately 66 percent of the residential technical potential to be achievable for the Washington service territory and a similar percentage of the technical potential to be achievable for the commercial class. We recognize that this is somewhat lower than the industry standard. If not earlier, in its next IRP the Company should provide a comprehensive explanation of its level of achievable savings.

The Plan provides an analysis of the effect on the 20-year DSM potential of the decline in avoided costs from 2008 to 2010 due to declines in natural gas prices. The Plan shows that a 10 percent decline in avoided costs resulted in a 2.6 percentage change in the 20-year technical potential. We find this to be a useful and informative analysis.

## **Resource Choices**

The 2011 IRP Plan that NW Natural filed on March 31, 2011, included the Palomar East pipeline project as a potential resource in its model. The pipeline rates modeled in the 2011 IRP Plan were based on the existing Palomar Pipeline precedent agreement which included a rate cap. The 2011 IRP Plan's Preferred Path included the Palomar Pipeline.

However, shortly after the completion of the 2011 IRP Plan, the Palomar Pipeline project application was withdrawn at the Federal Energy Regulation Commission. This led to new estimates of pipeline rates and service dates for a modified pipeline project referred to as Palomar/Blue Bridge Cross-Cascade Pipeline and the decision by the Company to modify its filed IRP.

We emphasize that integrated resource plans should be based on generic future resources. Generic resources do not include resources the Company does not own but believes it will own, or resources with costs and characteristics based on one single resource project. The cost and timing represented in the model for any resource should be determined from a broad collection of sources, not from the term sheets of one speculative project.

In the 2011 Modified Natural Gas Integrated Resource Plan filed on September 1, 2011, the Company develops its "1411-2011 IRP Mod Base Case" (Base Case) around the assumption that the Palomar/Blue Bridge Cross-Cascade Pipeline is not built. The Company ran the model with several scenarios that had different price ranges. We consider this a reasonable approach to planning analysis when the Company is faced with a potential resource that is very specific to its service territory and needs but has an uncertain future.

The Plan's Preferred Path includes three options.

The Base Case does not include the Palomar/Blue Bridge Pipeline as it was excluded from the choices the model could make.

The two other options in the Preferred Path have capacity on the Palomar/Blue Bridge Pipeline as a result of scenarios run with the Palomar/Blue Bridge Pipeline option available.

The "1392-2011 IRP Mod PAL 100" has 100 MDTH/day of Palomar/Blue Bridge Pipeline priced at the Palomar rate and has a Net Present Value (cost) that is 0.3 percent more than the Base Case.

The "1391-2011 IRP Mod PAL BB 50" has 100 MDTH/day of Palomar/Blue Bridge Pipeline priced at a 50/50 mix of the Palomar rate and Blue Bridge rate.

We recognize that the cost differences, varying from \$300,000 to \$600,000 Net Present Value, are relatively small compared to the general accuracy of model forecasts. In all the Cases, the SENDOUT model chooses Mist Storage recall as part of the least cost

option. However, it chooses lower amounts in the 1392 cast than the 1411 case that does not have the Palomar/Blue Bridge Pipeline. Considering the surety of the Mist Storage recall in terms of price (and timing) compared to the uncertainty of the cost (and timing) of building a pipeline and the effective rates once the pipeline is in service, the Commission concludes the Base Case to be of greater value. However, the Company's exploration of capacity on a new pipeline is a reasonable action.

### **Conclusion**

The Commission acknowledges that NW Natural's 2011 Modified Natural Gas IRP complies with WAC 480-90-238.