

Attachment
Avista Corporation's 2009 Natural Gas Integrated Resource Plan
UG-090015

As a natural gas utility in Washington, Avista Corporation (Avista) 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 rapidly changing gas demand and changing dynamics of gas supply. The planning requirements specified in WAC 480-90-238 are intended to help each utility develop a strategic approach to address marketplace opportunities and risks based on that utility's unique attributes. Avista's 2009 Natural Gas Integrated Resource Plan (Plan) represents such a strategic approach. As such, it is consistent with the Utilities and Transportation Commission's (Commission's) planning regulations. Below we discuss how the Plan addresses elements of WAC 480-90-238.

Demand Forecast of Retail Gas Requirements (Chapter 3)

WAC 480-90-238(3)(a) requires the Plan include "a range of forecasts of future natural gas demand in firm and interruptible markets for each customer class that examine the effect of economic forces on the consumption of natural gas and that address changes in the number, type and efficiency of natural gas end-uses."

For its demand forecast, Avista used three demand scenarios: high, medium, and low. In its action items, the Company states a commitment to continue exploration of alternative and additional forecasting methodologies, including additional research into price elasticity effects.

The Plan discusses the recent rapid decrease in gas demand. The Commission cautions that expectations of a solid recovery in demand may be overly optimistic and Avista would be better served to examine actual demand for signs of recovery than economic indicators alone as it moves forward with its resource decisions and gas acquisition.

Conservation and Demand Side Management (Chapter 4)

WAC 480-90-238(3)(b) requires the Plan to include "an assessment of commercially available conservation, including load management, as well as an assessment of currently employed and new policies and programs needed to obtain the conservation improvements."

Avista's Plan includes an update to the 2005 conservation potential assessment study conducted for its Oregon service territory and extrapolated to Washington and Idaho (see Appendix 4.2). The Company commits, in its action plan, to hire a consultant to perform a

conservation potential assessment study for its Washington and Idaho service territories prior to completion of its 2011 integrated resource plan. Performing timely potential assessment studies is critical to establishing valid conservation goals.

- The Commission requires, as part of Avista's integrated resource plan (IRP) requirements, Avista to complete its conservation potential assessment study and incorporate the findings into its 2011 IRP.

Avista's Plan incorporates the Company's potential DSM resources into the SENDOUT model, thereby effectively treating DSM on a level playing field with other resource options. All measures were modeled individually, creating a uniquely reliable result to the extent the assumptions about measure cost and effectiveness are valid.

The Commission, in Order 10, Docket UE/UG-090134 (Avista's 2009 general rate case), required that Avista separate its Washington and Idaho conservation goals in order to set its target for its decoupling mechanism on a Washington only basis. The Company filed its Plan the same week the Commission's order was issued. The Plan splits its calculation of DSM measures into a North Division (Washington and Idaho) and a South Division (Oregon). The Plan estimates DSM measures will acquire 3,128,842 therms in the Washington/Idaho division in 2010, and 3,072,339 therms in 2011. This is a significant increase from 1,755,829 therms forecasted for 2010 in the 2007 Natural Gas IRP.

- The Company's next IRP should separate Washington and Idaho conservation resources and identify annual goals. Portions of the IRP supporting the identification of achievable conservation potential may also require separate Washington and Idaho analysis.

Supply Side Resources (Chapter 5)

WAC 480-90-238(3)(c), (d) and (e) require the Plan to include "an assessment of conventional and commercially available nonconventional gas supplies; an assessment of opportunities for using company-owned or contracted storage; [and] an assessment of pipeline transmission capability and reliability and opportunities for additional pipeline transmission resources."

The Plan provides a clear description of the sources of gas supply and gas transport options in relation to Avista's service territories. The Plan describes Avista's intentions to recall Jackson Prairie storage rights from Shell Energy North America in April 2011. Avista correctly models the resource as an incremental available storage resource while pursuing an evaluation of its use of Jackson Prairie capacity and deliverability.

The plan also does a very good job identifying the possible effect of the Ruby pipeline project on Avista's strategy of GTN backhauls.

Integration of Supply and Demand - Integrated Resource Portfolio (Chapter 6)

Avista's modeling methods are sound. Avista's selection of the expected case is a reasonable choice, made more reasonable by Avista's update of price forecasts for that case in August 2009. The Plan also identifies the monitoring of demand levels and peak day requirements for deviations from the expected customer growth and use per customer as inputs informing ongoing resource decisions. While the Commission considers the choice of the expected case to be appropriate, it will still be necessary for Avista to closely monitor natural gas prices and gas demand to assure the course determined under the expected case is valid.

For Avista's expected case, the Washington/Idaho service territory resources are not deficient until the 2022-2023 heating season. Even in Avista's high demand case, Avista's Washington/Idaho service territory is not resource deficient until the 2015-2016 heating season.

Avista's SENDOUT computer model shows capacity purchases on Gas Transmission Northwest (GTN) pipeline as the lowest-cost means of meeting the 2022-2023 heating season deficit. Avista states that it has sufficient time before potential resource shortages to react to any pending shortage. The Commission expects Avista to use this decade to pursue all achievable cost-effective conservation with the goal of delaying further the need for above-imbedded-cost incremental resources.

Distribution Planning (Chapter 8)

The Commission considers Avista's use of graphic software and its refinement of distribution model equations to closely reflect actual system behavior as necessary technology advancements for gas distribution companies. Avista states that its distribution computer software enables the optimization of the existing gate station delivery points of Avista's pipeline capacity rights as well as the support of proper distribution delivery pressure under varied conditions. The Commission recognizes that Avista's distribution modeling capability should assist Avista in managing growth in demand with its existing pipeline capacity and delivery points through the 10-year period that the Company does not expect to need new pipeline capacity.

Action Items

Avista concludes it does not need additional supply-side resources until the 2022-2023 season. Avista lists several monitoring activities under its supply-side action items including gas production and effects of pipeline expansions on regional gas supply and pipeline rates. The Commission considers these important areas to monitor and encourages the Company to also

explicitly include in its list the monitoring of backhauling capacity on the GTN pipeline north from Malin.

The Commission notes that Avista has a ten-year period without a projected need for supply-side resources. This is an opportunity for Avista to pursue energy efficiency measures. The Commission encourages Avista to take this opportunity to fulfill its obligation by acquiring cost-effective energy efficiency that may further postpone the need for supply-side resources including new pipeline capacity on new pipeline projects that are accompanied by considerably higher transport rates.

Without a need for additional supply-side resources, the Commission agrees with the importance of Avista's strategy of maximizing Avista's use of its existing resources. The Commission encourages Avista to pursue its goal of capturing additional value related to existing storage assets as well as Avista's commitment to analyze its natural gas procurement practices.

Conclusion

The Commission acknowledges that Avista's 2009 Natural Gas Integrated Resource Plan complies with current regulatory requirements.