ORDER NO. 10-208
ENTERED 06/08/10

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

LC 49

In the Matter of AVISTA UTILITIES 2009 Integrated Resource Plan.	ORDER

DISPOSITION: PLAN ACKNOWLEDGED WITH REQUIREMENTS FOR THE NEXT PLANNING CYCLE

I. INTRODUCTION

On December 30, 2009, Avista Utilities (Avista or the Company) filed its 2009 Natural Gas Integrated Resource Plan (IRP or Plan). On March 25, 2010, Avista filed a 2009 IRP Addendum.

II. JURISDICTION

On April 20, 1989, pursuant to its authority under ORS 756.515, the Public Utility Commission of Oregon (Commission) issued Order No. 89-507 in docket UM 180 adopting least-cost planning for all energy utilities in Oregon. On January 8, 2007, the Commission updated its resource planning guidelines in Order No. 07-002 (docket UM 1056). This order was corrected in Order No. 07-047, entered February 9, 2007. Avista is a public utility in Oregon, as defined by ORS 757.005, providing natural gas service to or for the public. Avista filed its 2009 IRP in accordance with the Commission's integrated resource planning requirements adopted in Order Nos. 07-002 and 07-047.

III. REQUIREMENTS FOR INTEGRATED RESOURCE PLANNING

The Commission requires regulated energy utilities to file integrated resource plans within two years of acknowledgment of the last plan. Utilities must involve the Commission and the public in their planning process and prior to resource decision-making. Substantively, the Commission requires that energy utilities:

(1) evaluate resources on a consistent and comparable basis; (2) consider risk and uncertainty; (3) make the primary goal of the process selecting a portfolio of resources with the best combination of expected costs and associated risks and uncertainties for the utility and its customers; and (4) create a plan that is consistent with the long-run public interest as expressed in Oregon and federal energy policies. *See* Order No. 07-002.

The Commission "acknowledges" resource plans that satisfy the procedural and substantive requirements and that seem reasonable at the time acknowledgment is given.

IV. OVERVIEW OF AVISTA'S INTEGRATED RESOURCE PLAN

Avista's 2009 IRP describes the components of the Company's planning process. The Plan includes forecasts of future customer demand and identification of resource needs over the 20-year planning period; assessments of demand-side and supply-side resource options and distribution system enhancements; consideration of planning risks and uncertainties; analysis and selection of resource options for meeting future needs; and identification of actions to be accomplished over 2010 and 2011 to carry out Avista's resource strategy and to complete additional planning activities. Following is a summary of the Plan's key components:

- Demand Forecast. Avista's demand forecasts were produced using the Company's SENDOUT® resource optimization model. Daily demand forecasts were developed for residential, commercial, and firm industrial customers (core market) in five demand areas in Avista's South Operating Division (Oregon) and North Operating Division (Washington and Idaho). Starting with a baseline Reference Case, the Company developed six alternate demand scenarios: Expected Case, Low Growth/High Price, High Growth/Low Price, Green Future, Alternate Weather Standard, and Supply Constraints. These scenarios included combinations of growth projections, price forecasts, alternative weather-planning,[1] high carbon adders/drilling constraints,[2] and supply constraints.[3]

  Avista selected the Expected Case as the most likely scenario for its planning activities. The selected case reflects the effect of the change in the economic conditions since the last IRP. It represents moderate growth rates and price projections. For the Expected Case, Avista projects average core market demand will grow at an annual average rate of 1.1 percent over the 20-year planning horizon. Peak day core market demand for the Expected Case is projected to grow at an annual rate of 1.3 percent over the period.

  The Company indicated in the Action Plan section that it will closely monitor actual demand for indications or signs of higher-than-expected growth rates to adequately and timely address resource deficiencies as necessary.

[1] The weather planning standard is the coldest day in the last 20 years instead of the coldest day on record.
[2] This scenario is characterized by phasing in high range costs of regulating Greenhouse Gas Emissions.
[3] These take into consideration a significant decline in Canadian gas imports.

- Demand-Side Resources. For the 2009 IRP, Avista evaluated 155 residential and 147 non-residential energy efficiency and savings measures. The Company first identified the technical potential for DSM savings. Second, the Company assessed the achievable DSM savings. In this IRP, the Company upgraded the measures testing phase from the group-bundled approach used in the previous IRPs to a measure-specific data input method. This allowed a more accurate selection of measures for DSM resources acquisition. Measure-specific data such as cost of the measure, life of the measure, the annual energy savings, non-energy savings, and discount rate had been entered into SENDOUT®. Avista separately forecasted potential savings from non-residential custom measures acquired through the Company's site-specific program.

- Supply-Side Resources. Avista's existing supply-side resources are divided into three categories: supply, transportation, and storage. The Company described the specific existing resources under each category. Avista's gas supplies are from the two largest natural gas producing regions in North America: The Western Canadian Sedimentary Basin and the Rocky Mountain gas basins. The major supply points, *i.e.*, hubs, for Avista are AECO, Sumas, Rockies, and Malin. Gas procurement is typically done via contracts. For modeling purposes, SENDOUT® assumes that all of Avista's supply contracts are firm, physical, and fixed-price contracts. In reality, the Company may enter into other types of contracts such as financial hedging, non-firm contracts, or non-fixed price contracts. The Company's gas costs are reviewed during the annual Purchased Gas Adjustment (PGA) filing.

  Avista has contracted with the interstate pipelines serving the region for firm deliveries and sufficient capacity to meet peak day demand. Interstate pipelines also offer interruptible services, which Avista does not rely on to meet design day core demand requirements. The 2009 IRP provides information on the Company's current available firm transportation by pipeline, time of year, and daily volume (Dtherms/day). The Plan also identifies unsubscribed capacity available on the TransCanada Gas Transmission Northwest (GTN) pipeline for future demand needs.

  Avista's storage resources consist of the Jackson Prairie facility where it is one-third owner, and the underground Mist Storage, where it has rights to 500,000 therms of capacity. This resource allows Avista to recall gas from storage to meet demand requirements.

  In anticipation of growth, the Plan identified incremental resource options available to the Company to meet future demand requirements. These resources include: distribution system enhancements, capacity release/recall, GTN backhauls, new pipeline transportation, in-ground storage, and Liquefied Natural Gas (LNG).

Avista developed four alternate supply scenarios utilizing the different types of supply resources described above. These scenarios were characterized as: Existing Resources, Existing plus Expected Available resources, GTN rate escalation, and GTN fully subscribed. The supply scenarios were developed so that they address the deficiencies exhibited by the different demand scenarios.

- Resource Integration Strategies. Avista's IRP indicates the need for additional resources to meet the Expected Demand Case requirements in Medford/Roseburg by 2018/2019 and in Klamath Falls by 2021/2022. No additional resources are needed for La Grande within the 20-year planning period. The results from SENDOUT® indicate that Oregon's achievable DSM savings from residential and non-residential programs are 326,314 therms and 324,983 therms in 2010 and 2011, respectively. After considering economic conditions such as the State's unemployment rate and a gradual recovery from the current recession, the Company constrained the annual DSM growth rate to 2.2 percent in the years 2010 through 2012. Avista's DSM savings goal in this IRP is 303,300 therms and 309,973 therms in 2010 and 2011, respectively.

  Each supply-side scenario was matched with one demand scenario to form a portfolio. The Net Present Value Revenue Requirements of each portfolio was calculated once the resources were determined. As discussed previously, the Expected Case was selected by the Company as the most reasonable and likely scenario to anticipate for resources planning purposes. The Existing Resources plus Expected Available supply-side scenario was determined to have the least cost and least risk to meet the requirements of the demand scenario. The Company named this combination of demand and supply scenarios "the Preferred Portfolio," which is the selected portfolio for resources integration strategy in this IRP.

  The selected portfolio consists of the Existing Resources and the Expected Available resources. The Expected Available resources include: the acquisition of the Klamath Falls lateral,[4] the expansion of the Medford lateral,[5] capacity release/recalls, LNG, and satellite LNG.

  As directed by the Commission IRP guidelines, Avista evaluated the impact of the environmental compliance costs on resources selection. Avista's distribution system relies solely on the upstream line pressure of the interstate pipeline. Thus, it does not directly combust fuels that result in any carbon dioxide, nitrogen oxide, or sulfur dioxide emissions. Cost adders would result from upstream activities, *i.e.*, on the interstate pipeline system, at compressor stations that are used to pressurize and move natural gas. Avista calculated the anticipated costs of such

[4] Avista entered into an agreement with Northwest Pipeline to purchase the lateral at net book value. Subject to certain terms, Avista may finalize the deal within a year.

[5] This is intended to accommodate the addition of the currently available capacity on the GTN system; provide sufficient compression to flow more gas from the mainline to the lateral; and increase backhaul capacity from Malin.

activities but it does not believe that these costs will have an effect on the selection of supply-side resources.

- Distribution System Planning. In addition to demand forecasts and resources acquisition, the Company performs ongoing evaluations of its distribution network to ensure that the system has adequate capacity, safety, and reliability to meet demand requirements resulting from customer and load growth. In addition, Avista conducts regular integrity assessments to make necessary system upgrades and maintenance work. The Plan identified key near-term projects to enhance the system's overall capacity. These projects include reinforcements to the pipelines, regulators, and compressor stations. The Plan also provides details on the Company's distribution system modeling.

- Two-Year Action Plan. Avista's 2010-2011 Action Plan describes the near-term actions the Company will take to implement its optimal resource strategy and to support and improve IRP planning. Avista's key action items are:

  - Monitor actual demand closely for indications of faster-than-forecasted growth to aggressively address accelerated resources deficiencies arising from the risk of "flat-demand" in the current forecast.
  - Continue to follow the discussions on diminishing Canadian gas exports to the Pacific Northwest and look for signals of increased risk of disrupted supply.
  - Analyze actual Use per Customer data and DSM program results for indications of effect of evolving economic conditions on price elasticity response trends.
  - Update the assessment of conservation and achievable potential prior to the next IRP.
  - Evaluate the use of alternative forecasting methodologies in addition to the current methodology.
  - Continue the pursuit of reducing demand through cost-effective demand-side solutions.

V. COMMENTS OF THE PARTIES

Avista solicited input from parties through its Technical Advisory Committee (TAC) meetings prior to distributing a draft 2009 IRP for external review on September 4, 2009. Avista provided a summary of the significant comments made by members of the TAC. Staff of the Commission provided comments on Avista's draft plan on November 13, 2009. Avista filed its 2009 IRP with the Commission on December 30, 2009. Staff distributed its draft recommendation and a draft proposed order on the Plan to the Company and parties of record on March 18, 2010. On March 25, 2010, Avista filed a supplemental addendum following discussions with Staff. No other comments or recommendations were received from the parties or the public.

Staff's Comments. In Appendix 2.1 of the Plan, Avista describes how it meets each requirement of the IRP guidelines as prescribed in Order Nos. 07-002 and 07-047. The public, including other utilities, were significantly involved in the preparation work leading to the production of the Company's IRP. This is demonstrated by the exchange of information through the discussions, comments, and responses between the TAC members and the utility. Staff agrees that the procedural requirements have been met.

Avista's 2009 IRP provides ample details on the technical analyses that were performed to support its resources integration strategy. Staff reviewed the information in Avista's Plan in light of the Commission's IRP guidelines. The Company's Preferred Portfolio provides resources that meet the demand requirements of the expected case within the 20-year planning horizon. Consistent with the current economic environment and the slower than originally expected economic recovery, Avista's position is that the expected demand case represents the most likely trends for the assumptions analyzed. These assumptions reflect moderate customer growth forecast and carbon mitigation case, mid-range price forecast, and low-price elasticity. The Company noted, however, that it will closely monitor actual demand for indications of faster/higher-than-expected growth to timely and adequately address resource deficiency as outlined in the 2010-2011 Action Plan section of the IRP. The Plan and the supplemental addendum contain detailed information on the demand influencing factors and demand sensitivities supporting the assumptions in the Company's selected case. Staff agrees that Avista's assumptions are appropriate. The selected supply scenario consists of Existing Resources plus Expected Available resources consistent with least cost/least risk integrated resources planning. Staff concludes that the Company's resources integration strategy satisfies the IRP substantive requirements of the IRP guidelines.

The Plan demonstrates that the Company conducted sufficient technical analysis to support its portfolio selection. However, Staff believes that adding a scoring system, which assigns a value to the sensitivities that influence demand, will clarify the comparison between the portfolios with respect to costs, risks, and uncertainties. Staff believes that this recommendation is consistent with IRP Guideline 1.a.1, *i.e.*, all resources must be evaluated on a consistent and comparable basis.

With respect to Demand Response, Guideline 7 requires that the IRP evaluate demand response resources. Staff agrees that the Plan meets the guideline and explains in detail Avista's methodology of developing its conservation goal. However, Staff believes that consistent with the guideline, the IRP should include a discussion of how the savings will be measured and verified after installation to assess the Company's performance in meeting its conservation goals.

Staff recommends acknowledgement of the 2009 IRP with requirements for the next planning cycle.

VI. COMMISSION DISPOSITION

After review of Avista's IRP and consideration of Staff's comments, understanding that no other party provided comments on the Plan, we agree with Staff's recommendations. Subject to those recommendations, we agree that Avista's IRP reasonably adheres to the principles of integrated resource planning set forth in Order Nos. 07-002 and 07-047 and should be acknowledged. The Commission is concerned, however, that Avista's demand forecasts may be overstated in its current IRP. While this has no impact on the Company's short-term resource planning, Avista should continue to improve its modeling and critically review its input assumptions going into the next IRP cycle.

VII. EFFECT OF THE PLAN ON FUTURE RATE-MAKING ACTIONS

Order No. 89-507 sets forth the Commission's role in reviewing and acknowledging a utility's least-cost plan as follows:

> Consistency of resource investments with least-cost planning principles will be an additional factor that the Commission will consider in judging prudence. When a plan is acknowledged by the Commission, it will become a working document for use by the utility, the Commission, and any other interested party in a rate case or other proceeding before the Commission[.] Consistency with the plan may be evidence in support of favorable rate-making treatment of the action, although it is not a guarantee of favorable treatment. Similarly, inconsistency with the plan will not necessarily lead to unfavorable rate-making treatment, although the utility will need to explain and justify why it took an action inconsistent with the plan.[6]

The Commission affirmed this principle in docket UM 1056.[7]

This order does not constitute a determination on the rate-making treatment of any resource acquisitions or other expenditures undertaken pursuant to Avista's 2009 IRP. As a legal matter, the Commission must reserve judgment on all rate-making issues. Notwithstanding these legal requirements, we consider the integrated resource planning process to complement the rate-making process. In rate-making proceedings in which the reasonableness of resource acquisitions is considered, the Commission will give considerable weight to utility actions which are consistent with acknowledged integrated resource plans. Utilities will also be expected to explain actions they take that may be inconsistent with Commission-acknowledged plans.

[6] Order No. 89-507 at 7.
[7] *See* Order No. 07-002 at 24.

VII. ORDER

IT IS ORDERED that the 2009 Natural Gas Integrated Resource Plan filed by Avista Utilities on December 30, 2009, and supplemented on March 25, 2010, is acknowledged.

Made, entered, and effective JUN 08 2010.

Ray Baum
Chairman

John Savage
Commissioner

Susan K. Ackerman
Commissioner