

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 40

In the Matter of)	
)	
AVISTA CORP., dba AVISTA UTILITIES)	ORDER
)	
2006 Integrated Resource Plan.)	

DISPOSITION: PLAN ACKNOWLEDGED WITH MODIFICATION

INTRODUCTION

On March 31, 2006, Avista Utilities (Avista or the Company) filed its 2006 Natural Gas Integrated Resource Plan (IRP or Plan).

Jurisdiction

On April 20, 1989, pursuant to its authority under ORS 756.515, the Public Utility Commission of Oregon (Commission) entered Order No. 89-507, and adopted least-cost planning for all energy utilities in Oregon. 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 2006 IRP in accordance with least-cost resource planning requirements set forth in Order No. 89-507.

Requirements for Least-Cost Planning

Order No. 89-507 establishes procedural and substantive requirements for least-cost planning, and requires the Commission to acknowledge least-cost resource plans meeting these requirements.

Procedural requirements

The Commission requires regulated energy utilities to prepare least-cost plans every two years. The least-cost planning process must involve the Commission and the

public prior to making resource decisions, rather than after the fact. *See* Order No. 89-507 at 3.

Avista sought public input during the planning process through its Technical Advisory Committee (TAC). Participants in the Company's TAC included representatives for Commission Staff (Staff), customers, consumer advocates, academics, utility peers, governmental agencies and other interested stakeholders. Avista held six TAC meetings and a number of phone and electronic mail discussions during the planning process. The group provided input on many of the Company's planning assumptions during the meetings. The Company distributed a draft plan for comment before developing and submitting the final plan to the Commission.

Substantive requirements

The substantive requirements were also set forth in the Commission order as follows:

1. All resources must be evaluated on a consistent and comparable basis.
2. Uncertainty must be considered.
3. The primary goal must be least cost to the utility and its ratepayers consistent with the long-run public interest.
4. The plan must be consistent with the energy policy of the state of Oregon as expressed in ORS 469.010.

Order No. 89-507 at 7.

OVERVIEW OF AVISTA'S INTEGRATED RESOURCE PLAN

Avista's 2006 IRP is organized into two volumes. Volume I provides the plan text, which includes an executive summary, demand forecast, demand-side resources, supply-side resources, distribution planning, resource integration, avoided cost determination, action plan, and glossary of terms and acronyms. Volume II includes appendices providing the technical details of the plan.

Avista's IRP describes the basic components of the Company's planning process. The 2006 Plan includes a forecast of Avista's future market demand; assessments of demand-side and supply-side resource options; distribution system enhancements; consideration of planning uncertainties; analysis and selection of resource options for meeting future needs; and identification of actions to be accomplished over the next two years to carry out the Company's resource strategy and to complete additional planning activities. A summary of the Plan is provided below:

- Forecast. Avista's demand forecasts were produced using the Company's SENDOUT[®] model. Daily demand forecasts were developed for residential, commercial, and firm industrial customers (core market) in five demand areas in its South Operating Division (Oregon) and North Operating Division (Washington and Idaho). Using a multi-step approach, Avista developed a matrix of nine scenarios using low, medium, and high natural gas prices crossed with low, medium, and high customer growth to represent a wide range of future end-states. Avista selected three cases to review in more detail: Expected Case, Low Demand Case, and High Demand Case. Avista chose the mid-demand Expected Case as the most likely for its planning activities. For the Expected Case, Avista projects average day, core market demand will grow at an annual average rate of 3.7 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 3.9 percent over the period.
- Demand-Side Resources. Avista worked with a consultant to develop a comprehensive assessment of potential demand-side resources in the Company's North and South Operating Divisions. Natural gas efficiency options available to residential, commercial, and firm industrial customers were identified, and evaluated for cost effectiveness. This assessment included review of measures such as insulation and high efficiency furnaces and water heaters that are included in current Avista efficiency programs, as well as measures such as residential new construction, tankless water heaters, high efficiency commercial cooking equipment, and clothes washers and dryers that may be included in future programs.
- Supply-Side Resources. Supply-side options available to gas utilities include flowing gas supplies through interstate pipelines, storage, and recallable supply arrangements. Avista's flowing gas supplies originate in the Canadian provinces of British Columbia and Alberta, and in the U.S. Rocky Mountain area. The Company's supplies include annual contracts, firm winter peaking contracts, and spot gas. Avista contracts with Northwest Pipeline Corporation (NWP) and Gas Transmission Northwest (GTN) for interstate pipeline transportation into the Company's service areas in Washington, Idaho, and Oregon. The Company is one-third owner in the underground Jackson Prairie storage project for the benefit of its Washington and Idaho customers and contracts with Jackson Prairie for its Oregon customers. Avista has contracts for liquefied natural gas (LNG) storage at Plymouth, Washington to serve core customers in all three states. The Company releases excess pipeline and storage capacity into the secondary market when the capacity is not fully utilized. Avista has a peaking agreement with an industrial facility for 20 days of deliveries in the Medford area. The IRP evaluated a variety of resource alternatives to meet additional capacity needs over the planning horizon, including purchase and operation of the NWP Klamath Falls lateral as a high-pressure distribution system; construction of a high-pressure

distribution reinforcement from the GTN system off of the Medford lateral; reinforcement of the La Grande system with high-pressure distribution looping; backhaul of supply purchases in Malin, OR on the GTN system to Medford and Klamath Falls; recall of existing storage releases; expansion of Jackson Prairie storage; acquisition of Northern California storage; construction of satellite LNG storage; acquisition of existing and development of new pipeline capacity; and acquisition of LNG from a potential Coos Bay LNG facility.

- Integration Strategies. Based on expected load growth, Avista's IRP projects the need to acquire additional capacity resources in Oregon beginning in 2010-2011, and in Washington and Idaho beginning in 2012-2013. Future supply deficits were identified after reducing forecasted demand by the cost-effective demand-side resources identified in the Plan over the 20-year planning period. Avista's IRP anticipates acquiring savings of 441,000 therms per year in Oregon and 1,062,000 therms per year in Washington and Idaho through Avista demand-side programs. Avista's SENDOUT[®] model selected an optimal supply portfolio for Oregon that includes: the purchase of the Klamath Falls lateral in 2006; distribution enhancements in the Medford/Roseburg and La Grande areas in 2007 and 2013; GTN expansions of the Medford lateral in 2010 and 2014; and satellite LNG in the Medford/Roseburg area in 2020.
- Two-Year Action Plan. Avista's 2006-2007 Action Plan describes the near-term actions the Company will take to implement its optimal resource strategy and to support and improve IRP planning. On the supply side, Avista will: seek low-cost peaking resources that do not require annual contractual commitments; investigate acquisition of winter capacity releases from third-party providers; evaluate LNG opportunities; assess methods for capturing additional value from existing storage assets; develop the Company's storage strategy with particular focus on storage opportunities for Oregon customers; research non-Jackson Prairie storage prospects for all customers; and conduct regular meetings with Commission Staff to provide information on market updates, significant revisions to the hedging strategy, and status of IRP activities. On the demand side, the Company commits to acquire all natural gas efficiency resources available through cost-effective utility programs. In 2006, Avista will target program savings in Oregon of 298,000 therms, as it continues to evaluate and implement new energy efficiency programs with 2007 goals increasing to 441,000 therms. Avista will also actively seek opportunities for new or enhanced demand-side resource acquisition through the development of regional programs. In the forecasting and modeling areas, the Company will explore further separating out and forecasting demand areas; evaluate the benefit and feasibility of using city-gate station forecasts to improve distribution planning; and complete the evaluation of a planning model called VectorGas[™] that facilitates the ability to model price and load uncertainty.

Comments of the Parties

The Company solicited initial comments from parties, including Commission Staff (Staff), within the TAC process prior to issuing a draft 2006 IRP on January 13, 2006. On February 15, 2006, Staff submitted comments on the draft plan. On March 31, 2006, the Commission received the final IRP. Interested parties had an opportunity to file until July 13, 2006, regarding the final IRP. No party filed comments. Staff distributed its draft recommendation and a draft proposed order on the plan to the Company and interested parties on August 1, 2006. Avista filed reply comments to Staff's draft recommendation/order in a letter dated August 2, 2006. No other comments or recommendations on the plan or on Staff's recommendation were received from Oregon parties or customers.

Staff Comments. Based upon examination of Avista's 2006 IRP, Staff determined that the Plan is consistent with the substantive requirements of Order No. 89-507. Staff reviewed Avista's methods for evaluating supply-side and demand-side resource options and found the resources were compared on a reasonably consistent and comparable basis. Staff observes that Avista's Plan considers planning uncertainty through the evaluation of three primary scenarios using low, medium, and high natural gas prices crossed with low, medium, and high customer growth to represent a range of future end-states. Staff agrees with the Company's use of its linear optimization model to select the least-cost approach to meeting projected resource deficiencies identified for the three scenarios evaluated over the 20-year planning period. Staff also approves of the Plan's inclusion of demand-side resources in its least-cost mix of future resources and commitment to "achieve all natural gas-efficiency resources available through the intervention of cost-effective utility programs." Staff concludes that Avista's plan is consistent with the goals of Oregon's energy policy to promote the efficient use of energy resources and sustainability. Staff recommends the Commission acknowledge Avista's 2006 IRP, subject to the addition of the following provision:

In its regular meetings with Commission Staff to discuss supply-side issues, Avista should also provide updates on its progress in completing the analysis of cost-effective demand-side resource opportunities in its Oregon service territory and achieving the program development and implementation goals included in the IRP.

Avista Reply Comments. By letter dated August 2, 2006, Avista accepted the modification to the Plan recommended by Staff.

OPINION

After review of Avista's 2006 IRP and consideration of Staff's comments, understanding that no other party provided comments on the Plan, we agree with Staff's

recommendations. Consequently, we acknowledge Avista's 2006 IRP, as modified by Staff's language requiring Avista to provide the Commission with regular updates regarding demand-side activities and goals.

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:

The establishment of least-cost planning in Oregon is not intended to alter the basic roles of the Commission and the utility in the regulatory process. The Commission does not intend to usurp the role of utility decision-maker. Utility management will retain full responsibility for making decisions and for accepting the consequences of the decisions. Thus, the utilities will retain their autonomy while having the benefit of the information and opinion contributed by the public and the Commission.

Plans submitted by utilities will be reviewed by the Commission for adherence to the principles enunciated in this order and any supplemental orders. If further work on a plan is needed, the Commission will return it to the utility with comments. This process should eventually lead to acknowledgment of the plan.

Acknowledgment of a plan means only that the plan seems reasonable to the Commission at the time the acknowledgment is given. As is noted elsewhere in this order, favorable rate-making treatment is not guaranteed by acknowledgment of a plan.

Order No. 89-507 at 6 and 11.

This order does not constitute a determination on the rate-making treatment of any resource acquisitions or other expenditures undertaken pursuant to Avista's 2006 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 IRPs. Utilities will also be expected to pursue unanticipated least-cost opportunities beneficial to ratepayers that arise after Commission acknowledgment or, alternatively, explain why such opportunities were not pursued.

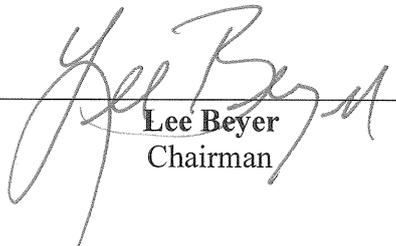
CONCLUSIONS

1. Avista is a public utility subject to the jurisdiction of the Commission.
2. Avista's 2006 IRP, with the modification adopted herein, reasonably adheres to the principles for least-cost planning set forth in Order No. 89-507. The plan will assist in insuring that Avista's customers receive adequate service at fair and reasonable rates and is otherwise in the public interest.

ORDER

IT IS ORDERED that the 2006 Natural Gas Integrated Resource Plan filed by Avista Utilities on March 31, 2006, as modified herein, is acknowledged in accordance with the terms of this order and Order No. 89-507.

Made, entered, and effective OCT 26 2006.



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner

