

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 22, 2006**

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: August 10, 2006

TO: Public Utility Commission

FROM: Lynn Kittilson

THROUGH: Lee Sparling, Ed Busch and Bonnie Tatom

SUBJECT: AVISTA UTILITIES: (Docket No. LC 40) Staff Recommendation Regarding Avista's 2006 Integrated Resource Plan.

STAFF RECOMMENDATION:

Staff recommends that the Commission acknowledge Avista Utilities' (Avista or the company) 2006 Natural Gas Integrated Resource Plan (IRP or the plan), subject to the following modification to the action plan:

"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."

A proposed final order incorporating Staff's recommendation is attached for the Commission's consideration.

DISCUSSION:

Avista filed its 2006 Integrated Resource Plan on March 31, 2006. The IRP was docketed as LC 40. The company's plan was developed during a public process that included six Technical Advisory Committee (TAC) meetings. The draft plan was provided to Staff and other interested parties for review and comment on January 13, 2006. Staff provided its comments to Avista on the draft IRP on February 15, 2006. Staff distributed its draft recommendation and a draft proposed order on the final 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.

A summary of the components of Avista's 2006 IRP is included in the attached proposed order.

The Commission's least-cost planning order, Order No. 89-507, states that plans submitted by utilities will be reviewed for adherence to least-cost planning principles. These principles have been set out in that order and in subsequent Commission decisions. The goal of the least-cost plan review process is the Commission's acknowledgment of a resource plan for the utility. Acknowledgment means only that the plan appears reasonable to the Commission at the time it is acknowledged.

Staff Review and Recommendations

Staff believes Avista's 2006 IRP meets the procedural and substantive requirements of Order No. 89-507. Avista has put considerable effort into its integrated resource planning process over the last year. The company has met with Staff and others numerous times to solicit feedback on the elements of the planning process. Most of Staff's questions, comments, and recommendations on the 2006 IRP were addressed by the company in the TAC meetings, written responses to Staff's data requests, informal discussions, and the final plan. Staff believes the IRP's assumptions, optimization modeling, conclusions, and action items are generally reasonable. Staff recommends that the Commission acknowledge Avista's 2006 IRP, subject to one proposed modification to the 2006-2007 Action Plan discussed below. Ongoing IRP discussions between Staff and Avista will address any future changes to the resource planning requirements resulting from the Commission's decisions in Docket UM 1056, the current Investigation into Integrated Resource Planning Requirements.

Recommendation. 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 the company's Oregon service territory and achieving the program development and implementation goals included in the IRP.

Discussion. Avista's IRP includes an analysis of demand-side resource potential that the company conducted with the assistance of a consultant. The company packaged energy efficiency measures that passed a preliminary cost-effectiveness screen in possible programs in order to evaluate their cost effectiveness within the IRP optimization modeling. The modeling resulted in a preliminary list of cost-effective energy efficiency programs and related therm savings goals in Oregon of 298,000 in 2006 and 441,000 in 2007. The plan acknowledges that additional work needs to be completed beyond the IRP when it states:

The analysis presented as part of this IRP is the first step toward identifying cost-effective natural gas efficiency measures. Immediately following the completion of this analysis, but outside the scope of this IRP document, the company will review the existing portfolio and business plan in light of the results of this analysis. This process will incorporate refinements and additional analysis of measures, revisions to existing and prospective program plans, and potentially the termination of measures that are determined not to be cost-effective. Included within this effort will be a determination of the optimal approach to each identified cost-effective measure to include the potential for cooperative acquisition or market transformation efforts.

It is possible that there will be measures accepted within this IRP that will subsequently be determined to be unsuitable for inclusion within the company's DSM portfolio based on post-IRP analysis, business planning and program planning efforts. It is also possible that programs will be developed for measures that were rejected by this IRP as a result of this same process. Though the IRP is the company's best opportunity to complete a comprehensive re-evaluation of the DSM portfolio and its integration into the overall resource mix, it is necessary to incorporate an ongoing business planning process to ensure that the best resource decisions are made.

Ultimately the company is committed to achieving all natural gas-efficiency measures that can be cost-effectively acquired through utility intervention. This commitment supersedes any numerical goals established within the IRP or the company's planning efforts. (Pages 3-1 and 3-2.)

The IRP proposes to communicate the results of the company's additional analysis to the Oregon Commission with its annual report on energy efficiency. Staff believes it would be helpful to be updated more frequently than once a year on the progress Avista is making in ramping up its demand-side activities in Oregon. Over the last year, Commission Staff has been meeting quarterly with each of the natural gas utilities to discuss supply-side issues. Avista's 2006-2007 Action Plan includes a supply/capacity action item that states, "Avista will conduct regular meetings with Commission Staff members with the intent to provide information on market updates, any material changes to the hedging program, and significant changes in assumptions and status of company activity related to the IRP." Staff believes this action item should be expanded to include updates on Avista's progress on accomplishing its Oregon demand-side goals.

Avista's Response to Staff's Recommendations

By letter dated August 2, 2006, Avista stated, "The Company agrees to modify its 2006-2007 Action Plan in its 2006 IRP to include the recommendation that in its regular meetings with Commission Staff, Avista will provide an update on its demand-side management progress to include at a minimum program updates, implementation goals, and analysis of cost-effective demand-side resource opportunities."

PROPOSED COMMISSION MOTION:

Avista's 2006 Integrated Resource Plan be acknowledged, subject to Staff's recommended modification.

Attachment

· *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 main 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 demand-side resource potential in its North and South Operating Divisions. Natural gas efficiency options available to residential, commercial, and firm industrial customers were identified and evaluated for cost effectiveness. The assessment included 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.* 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 based on expected load growth. The deficits were determined after reducing forecasted demand by the cost-effective demand-side resources identified in the plan over the 20-year planning period. The plan 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 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 and 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 and 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 Staff of both the Oregon and Washington Commissions, within the Technical Advisory Committee process prior to issuing the draft 2006 IRP on January 13, 2006. Staff submitted comments on the draft plan on February 15, 2006. The Commission received the final IRP on March 31, 2006. Staff solicited comments on the final IRP from interested parties that were due on July 13, 2006. No comments were received from other parties. 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.

Commission Staff Comments. Avista addressed most of Staff's issues prior to filing its final integrated resource plan, within the final plan, and in response to data requests. Staff recommends the Commission acknowledge Avista's 2006 IRP, subject to the following modification:

"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

Jurisdiction

Avista is a public utility in Oregon, as defined by ORS 757.005, which provides natural gas service to or for the public.

On April 20, 1989, pursuant to its authority under ORS 756.515, the Commission issued Order No. 89-507 in Docket UM 180 adopting least-cost planning for all energy utilities in Oregon.

Requirements for Least-Cost Planning under Order No. 89-507

Order No. 89-507 establishes procedural and substantive requirements for least-cost planning and requires the Commission's acknowledgment of plans that meet the requirements of the order.

Procedural requirements. At a minimum, the least-cost planning process must involve the Commission and 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 from Commission Staffs, customers, consumer advocates, academics, utility peers, governmental agencies and other interested stakeholders. Avista held six TAC meetings and a number of

phone and e-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.

Based on its review, Staff determined that Avista's 2006 IRP 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. Avista's plan considered 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. The company used 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. Avista's plan is consistent with the goals of Oregon's energy policy to promote the efficient use of energy resources and sustainability. The company has included demand-side resources in its least-cost mix of future resources and commits to "achieve all natural gas-efficiency resources available through the intervention of cost-effective utility programs."

Commission Decision on Parties' Comments

Staff recommends acknowledgment of Avista's 2006 IRP with one proposed modification to provide Staff with regular updates on its progress on accomplishing its demand-side resource activities and goals included in the plan. The Commission received no additional comments or recommendations from Oregon parties or customers on the plan. Avista accepted Staff's recommended modification to the plan. We adopt Staff's recommendation.

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 integrated resource plans. Utilities will also be expected to pursue unanticipated least-cost opportunities beneficial to ratepayers which 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 Integrated Resource Plan, 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 _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner