

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
LC 61**

In the Matter of)
)
AVISTA CORPORATION dba AVISTA)
UTILITIES)
)
2014 Integrated Resource Plan)
_____)

**OPENING COMMENTS OF THE
CITIZENS' UTILITY BOARD OF OREGON**

October 30, 2014



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I. Introduction

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3 CUB appreciates this opportunity to comment on Avista's 2014 Natural Gas Integrated
4 Resource Plan (IRP). CUB also appreciates the work Avista (the Company) has put into this IRP
5 and recognizes the value of the issues that were raised and discussed. CUB notes that the
6 Company has not requested acknowledgment of any additional supply resources due to its
7 projections of flat demand. The Company cites "flat demand risk" throughout the IRP and also
8 cites recessionary impacts as the primary reasons for the lack of significant supply investments.
9 CUB appreciates the Company's caution in regard to making supply investments. CUB wishes to
10 encourage the Company to explore more long-term hedging strategies as it relates to the IRP.
11 CUB would also like Avista to consider two related issues: demand-side management (DSM)
12 programs and potential natural gas demand spikes in the future.

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16 **II. Updates on DSM Programs**

17 In Avista’s previous IRP (LC 55), the Company was considering suspending its DSM
18 programs in Oregon because it claimed that low gas prices reduced the cost-effectiveness of its
19 DSM programs. The Oregon Commission ordered Avista to continue its DSM programs in
20 Oregon for two years and to report on the cost-effectiveness of the programs at the end of the
21 two-year period in 2014.¹ In its current IRP, Avista gives a short update about the cost-effective
22 status of these DSM programs in response to a data request from CUB. Regarding the DSM
23 programs, Avista states, “Many of these strategies have been completed and more are in-progress
24 with favorable impacts upon the cost-effectiveness performance to date.”² CUB would not be
25 aware of the extent of some of these improvements if it were not for the June 10, 2014,
26 presentation that the Company gave to Oregon PUC Staff. In that presentation, the Company
27 outlined some of the costs of its DSM programs and how the Company had worked to achieve its
28 DSM targets. CUB would appreciate a more extensive update on current and upcoming DSM
29 projects as they were treated in the June 10, 2014 presentation in its 2014 IRP to give all
30 stakeholders a more comprehensive picture of how the Company’s Oregon DSM programs are
31 evolving.

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33 **III. Hedging**

34 *DSM as a Hedging Mechanism*

35 In the past, CUB has stressed the value of DSM as a hedging mechanism.³ It is CUB’s
36 position that it is important to take DSM’s hedging value into consideration when evaluating

¹The ETO recently reassessed its avoided cost numbers. Avista should work to incorporate this in its IRP analysis. See http://energytrust.org/library/reports/Brief-Energy_Efficiency_Programs.pdf

²Docket No. LC 61. Avista 2014 IRP, Chapter 3, p. 44.

³ Docket No. LC 55. Comments of the Citizens’ Utility Board of Oregon, p. 5

37 DSM projects. CUB notes that though the general projections of the natural gas industry seem to
38 forecast low gas prices for years to come, relative analysis shows that current gas prices are
39 roughly one-third of their peak when observed over the last ten years.⁴ This suggests that prices
40 have much more latitude on the positive side (upward mobility) than the down side. For
41 example, gas prices could be positively impacted through the recently drafted EPA 111(d) rules
42 as utilities move away from coal and toward lower-carbon fuels like natural as a bridge to a
43 cleaner future.

44 CUB also notes that Avista has changed its modeling methodology in response to
45 expectations of climate change by shifting its moving average of 30 years of weather data to 20
46 years. This approach does weigh recent years and their data more heavily, but it is CUB's
47 opinion that more analysis could be done to address climate change impacts in the future. As
48 noted above, on June 2, 2014, the EPA released its draft rules for section 111(d) of the Clean Air
49 Act, which aims to limit carbon emissions. Though the rules were specifically targeting coal
50 plants, it is expected that some of the transition away from coal will include a transition to
51 natural gas as a fuel for power generation. This is likely to impact the price of natural gas despite
52 projections of continuous supply streams in the future and may impact the availability of pipeline
53 capacity. The Company itself acknowledges additional demand for natural gas, both nationally
54 and within the region, and agrees that it could impact pipeline availability:

55 "Adding additional pressure to existing pipeline resources is the announcement
56 of three methanol plants in the region. The plants use large amounts of natural gas
57 as a feedstock for creating methanol, which is used to make other chemicals and as
58 a fuel.

59 LDCs will have to compete with power generators, LNG exporters and other
60 large end users for limited pipeline capacity. The new mix could alter current
61 pipeline operations and the potential availability of infrastructure to the region."⁵
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⁴ See <http://www.nasdaq.com/markets/natural-gas.aspx?timeframe=10y>

⁵ Docket No. LC 61. Avista 2014 IRP, p. 79.

63 CUB believes that extra demand for gas will prove to be challenging for the
64 maintenance of low gas prices. CUB therefore recommends that the Company
65 incorporate all of these challenges into its IRP analysis in the future, especially the
66 potential impact on higher gas prices due to fuel switching in power generation.

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68 ***Long-Term Hedging in IRPs***

69 In addition to DSM as a hedging mechanism, CUB suggests that the Company consider more
70 long-term hedging strategies. CUB would like to point to one such example in PacifiCorp's 2013
71 IRP. In docket LC 57, PacifiCorp included in section 5a. of its Action Plan a request for
72 acknowledgment to convene a workshop for stakeholders to discuss potential changes to the
73 process in evaluating bids for future natural gas requests for proposals (RFPs). This would give
74 PacifiCorp a chance to explore whether it could secure additional (if any) long-term natural gas
75 hedging products.⁶ On October 29, 2013, PacifiCorp held the workshop with stakeholders.⁷ In a
76 data response to Staff, Avista states that it "does not currently carry out an expected performance
77 of procurement plan to the Integrated Resource Plan (IRP)." In CUB's view, Avista should
78 explore the possibility of long-term hedging within the IRP in order to mitigate price volatility
79 risks. The RFP process that PacifiCorp used is a low-risk method to test product availability.

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81 **IV. Conclusion**

82 It is CUB's view that there is little risk in investing in DSM, but the risk of not investing in
83 DSM could be significant. An extreme weather event, such as the more recent 2014 snow storms,

⁶ Docket No. LC 57. PacifiCorp 2013 IRP, p. 247.

⁷ See http://www.pacificorp.com/content/dam/pacificorp/doc/Suppliers/RFPs/RFP_NaturalGas2012/PacifiCorp-2013NaturalGasRFP-ProcessImprovement_10-29-13.pdf.

84 new environmental regulations such as 111(d), or political events can cause price excursions that
85 may triple or quadruple natural gas costs in a short period of time. DSM not only decreases
86 energy demand but can also be structured in part to follow peak so that capacity can be tempered
87 as well. Given that capacity has a stronger impact on prices, the investment in DSM can pay off
88 twofold. In addition, the Company may be able to mitigate the risk of price volatility by
89 exploring a variety of long-term hedging strategies.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nadine Hanhan', written over a horizontal line.

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LC 61 – CERTIFICATE OF SERVICE

I hereby certify that, on this 30th day of October, 2014, I served the foregoing **OPENING COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket LC 61 upon each party listed in the LC 61 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and five copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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Sincerely,

A handwritten signature in black ink, appearing to read 'Nadine Hanhan', with a long horizontal stroke extending to the right.

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