

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** DAPHNE HUANG  
DEPUTY ATTORNEY GENERAL

**DATE:** SEPTEMBER 19, 2014

**SUBJECT:** AVISTA'S 2014 ANNUAL PGA FILING, CASE NO. AVU-G-14-04

On September 15, 2014, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application. The PGA is a mechanism used to adjust natural gas rates up or down to reflect a company's changing costs for purchasing gas from suppliers – including transportation, storage, and other related costs. In this Application, Avista proposes to decrease its PGA rates an average of 2.1%, or about \$1.6 million per year. Application at 1. According to Avista, its proposal will not affect its earnings and will *decrease* the average residential or small commercial customer's monthly bill by \$1.16 per month. *Id.* at 4. As shown in greater detail below, the PGA rates for large commercial customers will *decrease* by 2.5%, but the PGA rate for Avista's sole interruptible customer will *increase* by about 0.2%. *Id.* at 3. Avista asks that its Application be processed by Modified Procedure, and that the new rates take effect November 1, 2014. *Id.* at 5.

### THE APPLICATION

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. *Id.* at 2. Avista buys natural gas and then transports it through pipelines for delivery to customers. *Id.* at 2. Customer rates are set prospectively, and changes in Avista's costs are deferred to the PGA. In this PGA Application, Avista proposes to: (1) pass any change in the estimated cost of natural gas for the next 12 months to customers (Schedule 150); and (2) revise the amortization rates to refund or collect the balance of deferred gas costs (Schedule 155). *Id.* at 2, 4.

Avista's PGA Application would impact customers as follows:

Service	Schedule No.	Commodity Change per Therm	Demand Change per Therm	Total Sch. 150 Change	Amortization Change per Therm	Total Rate Change per Therm	Overall Percent Change
General	101	\$0.01160	(\$0.00022)	\$0.01138	(\$0.03071)	(\$0.01933)	<b>(1.91%)</b>
Lg. General	111	\$0.01160	(\$0.00022)	\$0.01138	(\$0.03071)	(\$0.01933)	<b>(2.49%)</b>
Interruptible	131	\$0.01160	0.00000	\$0.01160	\$0.00119	\$0.01279	<b>0.20%</b>

1. Commodity Costs. Commodity costs are a company's variable costs for natural gas. The weighted average cost of gas (WACOG), which also includes other variable administrative costs, approximates a company's commodity costs. Avista estimates that its commodity costs will *increase* \$0.0116 per therm from the currently approved \$0.374 per therm to \$0.385 per therm. *Id.* at 3.

2. Hedging. Avista says it periodically hedged gas throughout 2014 for the coming PGA year (12 months), and that it will hedge about 35% of its estimated annual load requirements for the PGA year (November 2014 – October 2015) at a fixed price comprised of: (1) 13% of volumes hedged for a term of one year or less; and (2) 22% of volumes from prior multi-year hedges. *Id.* Through June, the planned hedge volumes for the PGA year have been executed at a weighted average price of \$0.425 per term. *Id.*

3. Demand Costs. Avista's demand – or fixed – costs are primarily costs to transport gas on interstate pipelines to Avista's local distribution system. *Id.* at 4. Avista proposes *decreasing* demand costs due to high projected-usage for fixed-demand costs which more than offset expiring short-term capacity release credits on Northwest Pipeline and increasing summer capacity on TCPL-Alberta pipeline. *Id.*

4. Amortization Rate Change. Avista proposes *decreasing* the amortization refund rate by \$0.03071 per therm (from a \$0.00015 per therm surcharge to a \$0.03056 per therm rebate). *Id.* at 4. This decrease is driven by changes in the demand portion of the amortization rate, including (1) colder than normal weather during the 2013-2014 winter, resulting in higher demand cost collections; (2) Avista entered into a new Deferred Exchange contract, effective April 2014, for which Avista charges a fixed per therm charge; and (3) an error regarding allocation of Avista's transport costs between power supply operations and natural gas distribution operations, resulting in a net benefit to customers. *Id.*

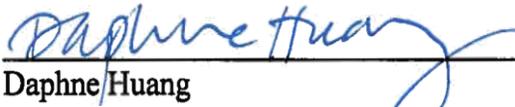
5. Customer Notice. Avista asserts it has notified customers of its proposed tariffs by posting notice at each of its Idaho district offices, and through a press release. *Id.* at 2. Also, Avista says it will send notice to each customer in bill inserts from September 17 through October 15, 2014. *Id.*

#### **STAFF RECOMMENDATION**

Staff recommends that the case be processed through Modified Procedure, with comments due by October 17, 2014, and replies, if any, due October 22, 2014.

#### **COMMISSION DECISION**

Does the Commission wish to process this case through Modified Procedure, with comments due by October 17, 2014, and replies due by October 22, 2014?

  
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Daphne Huang  
Deputy Attorney General

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