

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)	(1.91%)
Lg. General	111	\$0.01160	(\$0.00022)	\$0.01138	(\$0.03071)	(\$0.01933)	(2.49%)
Interruptible	131	\$0.01160	0.00000	\$0.01160	\$0.00119	\$0.01279	0.20%

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.*

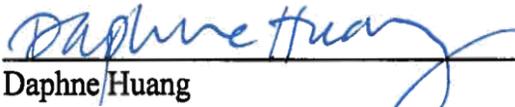
5. Customer Notice. Avista asserts it has notified customers of its proposed tariffs by posting notice at each of its Idaho district offices, and through a press release. *Id.* at 2. Also, Avista says it will send notice to each customer in bill inserts from September 17 through October 15, 2014. *Id.*

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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Deputy Attorney General

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