

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF AVISTA UTILITIES FOR AN ORDER) **CASE NO. AVU-G-01-2**
APPROVING A CHANGE IN NATURAL GAS)
RATES AND CHARGES.)
)
) **ORDER NO. 28827**
)

On July 9, 2001, Avista Utilities (“Avista”, “Company”), a subsidiary of Avista Corporation filed an Application with the Idaho Public Utilities Commission for authority to place into effect revised Schedule 155, containing rates and charges for natural gas service in the state of Idaho. Avista requested an effective date for revised Schedule 155 of August 9, 2001. Finally, Avista requested that the Commission process its Application using Modified Procedure under the Commission’s Rules of Procedure.

In Order No. 28785, issued July 13, 2001, the Commission suspended the effective date of Avista’s revised Schedule 155 until September 1, 2001 in order to allow the Company’s customers, the public and other interested parties ample time to file written comments regarding this Application. The Commission also elected to process the Company’s Application by Modified Procedure and established written comment deadlines of August 13, 2001 for interested persons and parties and August 17, 2001 for Avista. The Commission Staff filed its written comments on August 13, 2001. The Commission also has received several written comments from Avista customers who requested that the Commission deny the Company’s Application.

By this Order and for the reasons discussed below, the Commission approves Avista’s Application and the increase in rates and charges it proposes in Rate Schedule 155. These rates shall be effective on August 20, 2001.

BACKGROUND

Avista Utilities oversees the regulated business operations and generates, transmits and delivers electricity, natural gas and related services to customers in Washington, Idaho, Oregon and California.

The Commission approved Avista’s existing rates and charges for natural gas service on February 9, 2001. Order No. 28641, Case No. AVU-G-00-5. This Order authorized the

Company to increase its net annual revenue by 29% in order to mitigate against the unprecedented prices for natural gas on the wholesale market. Despite these increases in rates Avista alleged that it has continued to defer costs for natural gas that were well above what the Company was recovering through authorized customer rates. Accordingly, Avista's instant Application now proposes to adjust these authorized rates and charges. Specifically, through adjustments to its Schedule 155 – Gas Rate Adjustment, the Company seeks to recover \$22,340,517 of under collections of accrued gas costs. This amount also includes expenses related to purchases of financial instruments and accrued interest. These amounts were not recovered through the Company's last tracker adjustment¹ and are due in large part to the unprecedented costs of natural gas on the wholesale market during the recent past and the Company's lack of natural gas storage capacity.

Given the magnitude of the rate increases passed on to customers over the last year, Avista proposes to recover the deferred amounts over a two-and-a-half-year period to minimize the impact on ratepayers. Thus, the Company is requesting that the Commission authorize it to increase its annual revenue by \$6.9 million or 11.5% per year by raising rates and charges contained within Schedule 155. However, the Company states that these proposed changes in rates and charges will vary according to customer class and usage. Below are the present and proposed rates as presented by the Company:

¹ Avista filed a similar Application in the state of Washington that was approved on August 9, 2001. In that matter the Company was allowed to increase its annual revenue by \$17.7 million or 12.2%.

Schedule Number	Description	Present Tariff Rate	Proposed Tariff Rate	Proposed Percentage Increase	Average Monthly Increase
101	General Service	\$0.81111	\$0.89753	10.65%	\$6.91
111	Large General Service				\$167.66
	First 200 Therms	\$0.82696	\$0.91338	10.45%	
	Next 800 Therms	\$0.81058	\$0.89700	10.66%	
	Over 1,000 Therms	\$0.71836	\$0.80478	12.03%	
121	Commercial Customers				\$4,118.34
	First 500 Therms	\$0.81694	\$0.90336	10.58%	
	Next 500 Therms	\$0.81039	\$0.89681	10.66%	
	Next 9,000 Therms	\$0.71817	\$0.80459	12.03%	
	Over 10,000 Therms	\$0.70126	\$0.78768	12.32%	
131	Interruptible Customers	\$0.59073	\$0.72509	22.74%	\$4,044.77
146	Transportation Customers	\$0.10574	\$0.10574	0.00%	\$0

The Company gave notice of the proposed changes to Schedule 155 simultaneously with the filing of this Application by posting, at each of the Company's district offices in Idaho, a Notice, *see* Exhibit B, Application, and by means of a press release distributed to various informational agencies. *See* Exhibit E. In addition, in each Idaho gas customer's current billing the Company included a separate notice explaining the possible rate increase. The mailing of customer notices started July 9, 2001 and ended August 6, 2001. *See* Exhibit B-1.

STAFF RECOMMENDATION

After review of the Application and supporting materials the Commission Staff found that Avista had complied with the Commission's Utility Customer Information Rules by providing sufficient notice to its customers regarding this proposed increase. Staff also believed that Avista had prudently incurred the amounts in its deferral account that the Company is seeking recovery of through this instant Application. Staff recommended that Avista be allowed to recover these amounts over a two-and-a-half year period through adjustments to its Schedule 155 – Temporary Adjustments, that would raise the Company's annual revenue by \$6.9 million or 11.5%. Staff recommended that the Commission allow it to review the status of the deferral account during the next PGA filing anticipated to take place in one year to verify that the recovery rate proposed in this matter is still prudent. Finally, Staff recommended that the

Commission approve Avista's request to not alter its Schedule 150, thus retaining its WACOG at the present level.

CUSTOMER COMMENTS

As of August 13, 2001, the Commission received 15 written comments and/or informal complaints from Avista gas customers opposed to the rate increase. Customer comments in this case reveal a general concern for the impact utility cost increases have on the general state of the economy for northern Idaho, the effect this rate increase could have on seniors on fixed incomes, the profits the Company has made but is still requesting rate increases and possible mismanagement by the Company that should cause them to streamline their operations rather than requesting a rate increase.

COMMISSION ANALYSIS

A. Schedule 155

Schedule 155 is used by Avista to pass through any over- or under-collections of accrued gas costs since the last tracker adjustment. All of the increase proposed in this Application is made up of items in this schedule. The major items in the deferred gas costs that need to be addressed in this case are deferred gas costs, interest expenses and hedges purchased for price stability.

1. Deferred Gas Costs

The major component of the requested increase is the recovery of the deferred gas costs. Avista did not ask to recover these costs in the last two trackers. Because the WACOG² was lower than the amount the Company paid for gas, these costs continued to build up through May of 2001. The Company seeks to recover these deferred costs that have accrued through March 2001, over a two-and-a-half year period. The amount of deferred costs per customer for Avista is much higher than the amount per customer in the recently reviewed case for Intermountain Gas.³ The difference is due mainly to the fact that Avista does not have nearly as much storage for winter gas as Intermountain Gas does. Thus, Avista was exposed almost

² The WACOG (weighted average cost of gas) is the amount included in the tariff to reimburse the Company for the gas purchased. This amount is reviewed and adjusted as necessary during each PGA review.

³ In Case No. INT-G-01-2, the Commission reviewed the deferred gas costs of Intermountain Gas. See Order No. 28783 for the results of that case. As of March 2001, Intermountain Gas had deferred approximately \$227 per customer compared to Avista that had deferred approximately \$380 per customer.

completely to the unprecedented run-up of prices last winter and as a result, the deferral account increased dramatically.

2. Interest Expenses

Because of the large balance in the deferral account, \$837,735 in interest charges have accrued through June 2001, and interest continues to accrue at approximately \$110,000 per month. If allowed by the Commission, the interest charges accrued through March 1, 2001 will be recovered from ratepayers.

3. Hedges Purchased for Price Stability

In December 2000, the Company purchased financial instruments to fix the price of gas for customers. Later in that month, the Company came to the Commission and requested an order allowing it to defer the costs associated with those instruments. The Commission granted the accounting order in February 2001.⁴ In that Order, the Commission ordered the Staff and the Company to make sure the purchases were prudent at the time they were made. The prudence would be based on information that the Company could have or should have known at the time of the purchase.

At the time of the forward purchase, spot gas costs had soared to previously unprecedented levels. The Company was concerned about further exposure of customers to the spot market and decided to act to reduce that exposure. Because the Company has limited gas storage, exposure to the high-priced spot market is increased. By the end of November 2000, prices at Sumas⁵ had risen from approximately \$0.200/therm in November 1999 to over \$0.900/therm. At the time the purchases were made, the day-ahead price was \$1.427/therm and there were indications that the price would rise. On December 4, 2000, Avista entered into financial transactions that fixed a portion of the gas the Company would purchase during January 2001 through March 2001 at various prices. During the weeks that followed, the price at Sumas rose as high as \$4.230/therm.⁶

⁴ See Order Nos. 28639 and 28654 for details regarding the case and the Commission requirements for prudence.

⁵ Sumas, Washington is a major delivery point for Canadian gas entering the United States. Avista secures a significant portion of its gas from Sumas.

⁶ Avista Energy, Publication Index Prices, December 2000.

B. WACOG & Schedule 150

Avista's hedging actions have provided wholesale market price stability to ratepayers at a price that may be higher than current market prices. Consequently, Avista estimates a WACOG of \$0.4701/therm going forward and does not request a change from its existing WACOG of \$0.48044/therm.

COMMISSION DECISION

The Commission after carefully reviewing this case grants Avista's Application and approves its revised Schedule 155. The Commission's review indicates that the Company's actions, including its forward purchases of gas were more cost effective than anticipated spot purchases and therefore were prudent at the time they were made. For instance, the Commission finds that the Company reviewed all the market factors that were available and it purchased the financial instruments from non-affiliated companies. Even though the instruments turned out to be higher priced than market during two of the three months, the Commission finds that the Company's decision to fix the price of gas for customers was prudent based on the information available to it at the time. Furthermore, because of the unprecedented high price for gas during the past year Avista was unable to prevent a large deferred balance from accruing. The Commission thus finds that the Company should be allowed to recover the \$22,340,517 that has accrued in the deferral account through March 2001. The Commission also orders that recovery of this amount will occur over a two-and-a-half year period as the Company proposes. Furthermore, the Commission adopts the Staff proposal to review the status of the deferral account during the next PGA filing anticipated to take place in one year to verify that the recovery rate is still prudent.

The amounts that the Company seeks recovery for now are related exclusively to the unprecedented cost of gas that the Company has experienced and not to any other expenses such as the salary of a former executive. The Commission finds that the Company has acted prudently regarding the amount that has accrued in its deferral account through March 2001. To this point Avista has not recovered any portion of this amount and the Commission is concerned that without recovery now, the adverse impacts of continued deferral will disadvantage customers by creating an additional financial burden in the future.

The Commission also finds that the Company has complied with the Commission's Utility Customer Information Rules by providing sufficient notice to its customers regarding this proposed increase.

Based on the above, the Commission grants Avista's Application and authorizes it to recover, over a two-and-a-half-year period, \$22,340,517 that has accrued in its deferral account from September 1999 to March 2001. This will raise Avista's annual revenue by \$6.9 million or 11.5%. The Commission also orders that the Company is not required to alter its Schedule 150, thus retaining its WACOG at the present level.

ORDER

IT IS HEREBY ORDERED that Avista Utilities' Application for an Order Approving a Change in Natural Gas Rates and Charges is granted and the associated revised Schedule 155 is approved in its entirety. Avista's Schedule 155 shall be effective as of August 20, 2001.

IT IS FURTHER ORDERED that Avista's WACOG contained in its Schedule 150 shall not be changed.

THIS IS A FINAL ORDER. Any person interested in this Order or in interlocutory Orders previously issued in this Case No. AVU-G-01-2 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. AVU-G-01-2. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this
day of August 2001.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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