

## DECISION MEMORANDUM

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

**FROM:** JOHN HAMMOND

**DATE:** SEPTEMBER 24, 2003

**SUBJECT:** IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR  
AUTHORITY TO INCREASE ITS NATURAL GAS RATES FOR  
SERVICE, CASE NO. AVU-G-03-1.

On August 5, 2003, Avista Utilities, a unit of Avista Corporation, filed an Application for authority to place into effect new rate schedules that would increase the Company's estimated annual natural gas revenue by \$1.2 million or by about 2.4%.<sup>1</sup> The Application represented that should the Commission approve its request the average increase for all customer rates would be 2.5%. Avista requested that the Commission process its Application by Modified Procedure pursuant to Rules 201 through 204 of the Commission's Rules of Procedure. IDAPA 31.01.01.201-.204. Finally, the Company requested that its revised rate schedules be approved and become effective on September 15, 2003.

On August 20, 2003, the Commission suspended the effective date for the Company's proposed tariff sheets for 60 days or until it issued an Order approving, rejecting or modifying its Application, whichever date is earlier. Order No. 29325 at 3. The Commission also issued Notice of Application, Notice of Public Workshops and Notice of Comment Deadlines. *Id.* at 3-5.

### THE APPLICATION

Avista's firm service rates are subject to four adjustments that affect the actual rate customers pay. Avista requests that the Commission authorize changes to two of these adjustments, Schedule 150 – Purchase Gas Cost Adjustment (also known as Permanent Gas Cost

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<sup>1</sup> The Company serves 59,500 customers in northern Idaho.

Changes) and Schedule 155 – Gas Rate Adjustment (also known as the Temporary Adjustment). Avista seeks with its Application to pass through to each of its customer classes the change in gas related costs resulting from these proposed adjustments.

The Company requests an increase of \$0.09919/therm for a total rate of \$0.27186/therm on its Schedule 150. This increase is a combination of a \$0.10417/therm increase in the projected price for gas and a \$0.00498/therm decrease in the pipeline transportation costs. The proposed changes result in a weighted average cost of gas (WACOG)<sup>2</sup> included in rates of \$0.44989/therm, an increase of 30% over last year. The Company makes this request based on price increases in the Northwest wholesale natural gas market.

Avista also proposes a significant decrease in Schedule 155 from \$0.11018 to \$0.03093 per therm for most customers.<sup>3</sup> This reduced rate is projected to recover the \$2.25 million that was owed the Company as of July 2003 for the deferral period of July 2002 through June 2003.

The Company also proposes that large transportation and interruptible customers be given an option of receiving/paying a portion of the deferred gas costs either through a lump sum credit/charge or through an amortization rate.

## COMMENTS

### 1. Public Comments

As of September 22, 2003, the Commission has received three written comments submitted by customers of Avista in Idaho. Two of the comments opposed Avista's request and one supported it.

### 2. The Commission Staff

The Commission Staff noted the increasing market price trends for natural gas since the early spring of 2003 was caused in large part to: 1) depleted gas storage due to unseasonably cold weather in late winter for the eastern half of the U.S.; 2) increased reliance on natural gas fired electric generation throughout the U.S.; 3) increased pressure on fuel switching because of high petroleum prices; and 4) increased gas pipeline capacity from fields in the western Canadian and U.S. Rockies to the Midwest and California. Against this backdrop Staff reviewed the

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<sup>2</sup> 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.

<sup>3</sup> The Company proposes to lower the Schedule 155 tariff amount from \$.11598 to \$.0350 for Schedule 131, Interruptible Service (Off Peak).

Company's Application, performed an audit of the gas purchases from July 2002 through June 2003, reviewed additional market information supplied by the Company and third parties and made its recommendations.

First, Staff recommended that the Commission authorize Avista to recover the \$2.25 million owed to the Company as of July 2003 for the deferral period of July 2002 through June 2003 under its proposed Schedule 155.

Second, Staff recommended that the Commission set Avista's WACOG lower than the Company requested. Avista requested that the Commission authorize it to raise its WACOG to \$.44989/therm, up from \$.34572/therm as set in last year's PGA case. Order No. 29142, Case No. AVU-G-02-2. Staff recommended the Commission set the Company's WACOG at \$0.42995, using a lower Schedule 150 rate of \$0.25192, in order to provide price stability at a time when the natural gas market is clearly demonstrating a high degree of volatility. This would cause Avista's overall rate to remain the same as last year.<sup>4</sup> Staff also did not believe that setting the WACOG at this level would cause the Company to accrue a significant deferral balance. Furthermore, by setting the WACOG at this level Staff stated that the Commission would not be disallowing any possible recovery of gas costs that exceed this level because the PGA mechanism would assure that the Company would have the opportunity to collect all gas costs that it could demonstrate were prudently incurred and refund credits through its deferred expense tariff (Schedule 155). Based on the foregoing, Staff believed its proposal is reasonable.

Staff also noted the Company is working directly with its large gas customers on the proposed deferral collection. In the Company's 2001 PGA filing, Avista provided each large customer with an accounting of its portion of the deferral and a lump sum payment or deferral payment plan option. The Company has continued this practice in its 2003 PGA filing. In the past, providing the large customers with an individual payment option has reduced the deferral and avoided a shift of costs to the general body of ratepayers. Neither the Company nor Staff is aware of any additional large customers planning to shift to transportation rates but continuing to provide large customers with a clear understanding of their deferral balances allows these customers a better understanding of their obligation. Staff stated it would continue to monitor the Company's treatment of its large customer deferrals.

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<sup>4</sup> Other rates may have minor changes and it would result in an overall decrease of \$77,000 in revenues to the Company because of large customer payments.

Avista's Purchased Gas Cost Adjustment (PGA) Application filed on August 5, 2003 contained the customer notice. Staff reviewed the notice and determined it complied with the requirements of IDAPA 31.21.02.102. The notices were mailed with customer bills beginning August 1, 2003 and ending on September 2, 2003. The press release dated August 1, 2003, was also reviewed and determined to be compliant with the IDAPA requirements. Customers have until September 15, 2003 to file comments with the Commission.

On September 8, 2003, Staff presented a workshop in Lewiston to discuss the proposed rate increase. Other than representatives from the IPUC and Avista, there were three individuals in attendance: a customer, a newspaper reporter, and a private energy consultant from Boise. On September 9, 2003, another workshop was held in Coeur d'Alene. Attendees included the IPUC Staff, Avista representatives, and one reporter from a local newspaper. No customers attended.

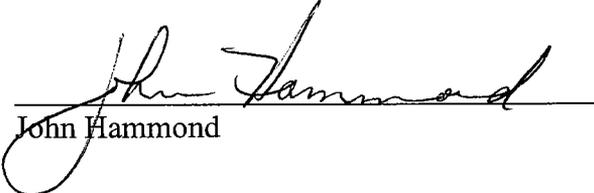
Since Avista's last PGA in November 2002, five natural gas-related complaints were investigated by Consumer Staff. With only five complaints, no patterns or trends could be identified.

### **3. Avista Reply Comments**

Avista states that it is sensitive to concerns related to additional increases in prices, however, it believes that Commission approval of the proposed increase of 2.4% is advisable given the most recent projections of natural gas prices. The Company states that Staff's proposal of a WACOG of 43 cents per therm is significantly less than recent forward price projections. The Company states that implementing this relatively modest increase now may help mitigate against a potentially larger increase in the fall of 2004 and provide better price stability.

### **COMMISSION DECISION**

Does the Commission wish to approve, reject or modify Avista's Application for Authority to Increase its Rates for Natural Gas Service?

  
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John Hammond

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