

## DECISION MEMORANDUM

**TO:** COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSIONER KEMPTON  
COMMISSION SECRETARY  
COMMISSION STAFF

**FROM:** DON HOWELL  
DEPUTY ATTORNEY GENERAL

**DATE:** JULY 24, 2008

**SUBJECT:** AVISTA'S APPLICATION FOR AN ACCOUNTING ORDER  
REGARDING TERMINATION OF ITS GAS STORAGE AGREEMENT  
WITH TERASEN GAS, CASE NO. AVU-G-08-02

On June 13, 2008, Avista Corporation filed an Application requesting an accounting order related to the termination of a Gas Storage Agreement between the Company and Terasen Gas, Inc. In 1982, Avista and Terasen (formerly known as BC Gas) entered into an agreement for the storage and subsequent release of natural gas at Avista's Jackson Prairie underground storage facility. The Agreement with Terasen was terminated May 1, 2008. On May 1, Avista began using the former Terasen storage capacity to serve its own customers.

On July 2, 2008, the Commission issued a Notice of Application and Notice of Modified Procedure requesting comments on Avista's request for an accounting order. The only comments filed in response to the Commission's Notice were those of the Commission Staff.

### THE APPLICATION

Under the terminated Agreement, Terasen paid Avista \$191,121 per month for the storage and eventual delivery of gas to Terasen. The Idaho jurisdictional revenue from the contract was \$54,388 per month and embedded in the current rates paid by Idaho customers. The termination of the Terasen Agreement is incorporated in the Company's current general rate case (AVU-G-08-01). However, until the new general rates become effective, Idaho customers are currently receiving a "credit" of \$54,388 each month although the revenue is no longer being received from Terasen. Consequently, the Company requested that the Commission approve an accounting order for the Company to record the additional deferred gas costs to Account 191 in the amount of \$54,388 each month beginning May 1, 2008, and ending on the date in which its

new gas rates become effective. The deferred costs associated with any partial month “would be prorated accordingly.” Application at 3. This deferred amount would be included with all other deferred gas costs and be recovered through rates as part of the Company’s annual PGA filing.

#### STAFF COMMENTS

The Commission Staff supported the Company’s request to record the revenue lost from the recall of the capacity released to Terasen Gas as deferred gas costs in Account 191. The Staff agreed with the Company that Idaho customers are currently receiving a monthly benefit of \$54,388 until new rates go into effect. The Staff also noted that the Company is “not requesting a rate increase or additional monies beyond what it has been previously authorized to receive, but rather is requesting the ability to recover revenues that were embedded in base rates that is no longer receiving.” Staff Comments at 2.

Staff disclosed that it has known for some time that Avista intended to terminate its Terasen storage agreement this year. Staff asserted that the extra capacity formerly provided to Terasen will allow Avista to better meet the needs of its customers during the winter months. Staff calculated that the \$2.3 million annual revenue formerly received from Terasen will be offset by approximately \$3.8 million the Company can achieve by taking advantage of a summer/winter price differential in natural gas. Based upon a conservative \$1.65/dekatherms differential between winter prices and summer prices, Staff calculated that the net benefit to Idaho customers is approximately \$500,000 annually. *Id.* at 3.

Staff’s only concern with the requested accounting treatment was that it will contribute to a substantial rate increase in the Company’s September 2008 PGA filing. Typically, gas utilities use the summer months to fill underground storage facilities. The stored gas is then used to serve customers in the winter when gas prices have been traditionally higher. Staff reported that NYMEX and Sumas gas futures indicate that natural gas prices may be over \$14/dekatherms this winter, or approximately \$2/dekatherms more than current prices. Staff estimated that Avista’s Idaho gas customers are facing an increase of 20-25% in retail rates this fall from the annual PGA filing. This increase would be in addition to any increase in base rates as a result of the Company’s general rate case currently before the Commission. *Id.*

Staff estimated that the requested accounting deferral will result in an additional balance of approximately \$330,000 for six months before new base rates become effective on or about November 1, 2008. Although this will put upward pressure on PGA rates, any increase in

rates going forward will be less than what they would have otherwise without the termination of the storage agreement. In addition, Avista's gas customers benefit by having the additional capacity available for their use. Consequently, the Staff recommends the Commission approve the Company's Application for a deferred accounting order.

#### **COMMISSION DECISION**

1. Does the Commission approve an accounting order for Avista to record the additional deferred gas costs to Account 191 in the amount of \$54,388 each month beginning May 1, 2008?
2. If new gas rates are effective after the first of the month, does the Commission find that the deferral should be prorated accordingly?
3. Anything else?

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Deputy Attorney General

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