

DECISION MEMORANDUM

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

FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL

DATE: AUGUST 17, 2011

SUBJECT: AVISTA'S 2011 ANNUAL PGA FILING, CASE NO. AVU-G-11-04

On August 15, 2011, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to increase its annualized revenues by \$1.1 million, or about 1.53%. Application at 1.¹ The Company says the changes will not affect its earnings. If the Application is approved, Avista calculates that the average residential or small commercial customer using 62 therms of gas per month will experience a monthly increase of \$0.99 per month (1.63%). *Id.* at 4. The Company asks that its Application be processed by Modified Procedure, and requests that the new rates take effect October 1, 2011. *Id.*

THE APPLICATION

Avista buys natural gas for customer usage and then transports the gas through pipelines for delivery to customers. *Id.* at 2. The Company defers the effect of timing differences due to implementation of rate changes and differences between the Company's actual weighted average cost of gas (WACOG) purchased and the WACOG embedded in rates. *Id.* The Company also defers various pipeline refunds or charges and miscellaneous revenue received from natural gas-related transactions, including pipeline capacity releases. *Id.*

¹ The PGA mechanism is used to adjust rates to reflect annual changes in the Company's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs.

1. Commodity Costs. Avista proposes *decreasing* the commodity cost (i.e., the WACOG) from the currently approved \$0.461 per therm to \$0.423 per therm, for a \$0.038 per therm decrease. *Id.* at 3.

2. Hedging. Avista says it has periodically hedged gas throughout 2011 for the coming PGA year (thirteen months). *Id.* The Company says it will hedge approximately 70% of its estimated annual load requirements for the PGA year (October 2011 – October 2012) at a fixed price comprised of: (1) 32% of volumes hedged for a term of one-year or less; (2) 18% of prior multi-year hedges; and (3) 20% from underground storage. *Id.* Through July, the planned hedge volumes for the PGA year have been executed at a weighted average price of \$0.479 per therm. *Id.*

Avista says that average daily wholesale prices of natural gas have stayed at levels similar to 2010; however, the prices of natural gas during the storage injection season (April - September) have been slightly higher than in 2010. *See* Application at 3. These higher prices have raised the storage WACOG above what is currently in embedded rates. *Id.* The Company notes, though, that while gas prices are currently higher than levels experienced a year ago, the forward prices for the upcoming PGA year have continued to drop. *Id.* The Company contends this decline has provided the opportunity to hedge natural gas at a cost below what is embedded in rates, and that this decreased hedge cost more than offsets the storage WACOG increase. *Id.*

3. Demand Costs. Avista maintains that the demand costs in its Application primarily represent the costs of pipeline transportation to the Company's system. *Id.* The Company proposes a slight increase in demand charges due, in part, to a proposed rate case settlement between Gas Transmission Northwest and gas shippers (including Avista). *Id.* The Company states the proposed settlement is to be filed with FERC in the near future, and that the Company expects it to be approved. *Id.* at 4.

4. Amortization Costs. Avista also proposes to increase the amortization rate to about \$0.047 per therm. *Id.* This increase results from the large, one-year 2010 refund amortization rate being replaced by a smaller rate. *Id.* The Company says the larger refund balance from the prior PGA was almost totally amortized in the current PGA year, resulting in a reduction in the refund amortization rate in this PGA. The Company says this reduction, coupled with current refund balances of \$1.6 million, results in a \$0.047 per therm increase in Schedule 155. *Id.*

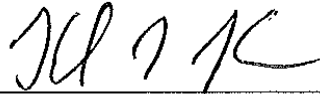
5. Customer Notice. Avista asserts that it has notified customers of its proposed increase in gas rates by posting a notice at each of the Company's district offices in Idaho, by means of a press release distributed to various informational agencies, and by individual notice to each of its Idaho gas customers via a bill insert. *Id.* at 2. The Company asks that the Commission process this matter through Modified Procedure pursuant to Rules 201-210 of the Commission's Rules of Procedure.

STAFF RECOMMENDATION

Staff recommends that the case be processed through Modified Procedure, with comments due by September 21, 2011.

COMMISSION DECISION

Does the Commission wish to process this case through Modified Procedure, with comments due by September 21, 2011?



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