Office of the Secretary
Service Date
September 25, 2012

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO CHANGE ITS RATES AND CHARGES (2012 PURCHASED GAS COST ADJUSTMENT).	)))))	**CASE NO. AVU-G-12-05** **ORDER NO. 32651**

On July 31, 2012, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application asking to *decrease* its annualized revenues by about \$3.6 million (5.4%). Application at 1.[1] The Company says its proposal will not affect its earnings and will *decrease* the average residential or small commercial customer's bill by about \$4.42 per month (7.9%). *Id.* at 4. The Company asks for the Application to be processed by Modified Procedure and for the new rates to take effect October 1, 2012. *Id.* at 5.

On August 14, 2012, the Commission issued a Notice of Application and Notice of Modified Procedure soliciting public comments on the Application and setting a September 17, 2012. Order No. 32615. Commission Staff and two members of the public filed written comments, and the Company filed a short reply.

With this Order, the Commission grants the Company's Application, with modifications to Schedule 155, as more fully discussed below.

THE APPLICATION

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. Application at 2.[2] The Company buys natural gas and then transports it 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.* In its annual PGA filing, the Company proposes to (1) pass any change in the estimated cost of natural gas for the next 13 months to customers (Schedule 150); and (2) revise

[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.

[2] The Company also generates, transmits, and distributes electricity in northern Idaho and eastern Washington. *Id.*

the amortization rates to refund or collect the balance of deferred gas costs (Schedule 155). *Id.* at 2, 4.

The Company says its PGA filing, if approved, 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	($0.02931)	($0.00849)	($0.03780)	($0.00890)	($0.04670)	**(5.02%)**
Lg. General	111	($0.02931)	($0.00849)	($0.03780)	($0.00890)	($0.04670)	**(6.31%)**
Interruptible	131	($0.02931)	$0.00000	($0.02931)	($0.00203)	($0.03134)	**(6.06%)**

The Company proposes *decreasing* the commodity cost (i.e., the WACOG) from the currently approved $0.362 per therm to $0.333 per therm, for a $0.029 per therm decrease. *Id.* at 3.

The Company says it periodically hedged gas throughout 2012 for the coming PGA year (13 months), and that it will hedge about 60% of its estimated annual load requirements for the PGA year (October 2012 – October 2013) at a fixed price comprised of: (1) 11% of volumes hedged for a term of one-year or less; (2) 29% of volumes from prior multi-year hedges; and (3) 20% of volumes from underground storage. *Id.* Through June, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.309 per therm. *Id.*

The Company says overall prices today are lower than they were in 2011. The Company notes it filed an out-of-cycle PGA in February 2012 to reflect lower spot prices, and that since then natural gas prices have stabilized at a much lower level than this time last year. Further, natural gas prices during the storage injection season (April-September) have been lower than they were in 2011. *See* Application at 4. These decreased prices have lowered the storage WACOG below what is currently in embedded rates. *Id.* The lower cash prices and forward prices for the upcoming PGA year have provided the opportunity to hedge natural gas at a cost below what is embedded in rates. *Id.*

The Company says its demand costs account for pipeline capacity releases and represent the costs to transport gas through pipelines to the Company's system. The Company proposes *decreasing* demand costs because increasing estimated pipeline capacity releases and decreasing costs from the Canadian pipelines more than offset increased demand costs arising from the recent Northwest Pipeline rate case approved by FERC. *Id.*

The Company proposes to increase the amortization refund rate by $0.00890 per therm (from $0.02885 per therm to $0.03775 per therm). *Id.* The Company says this increase is driven by the recent decline in the wholesale cost of natural gas, which has resulted in a net refund deferral balance of about $3.1 million. The Company proposes to refund this balance to customers over the next 13 months, assuming normal weather. *Id.*

The Company says it notified customers of its proposed tariffs by posting notice at each of its Idaho district offices, through a press release. Further, the Company says it will send notice to each customer in a bill insert before the changes take effect. *Id.* at 2.

THE COMMENTS

Public Comments

Two Avista customers filed written comments. One customer mistakenly believed that Avista had requested a rate increase. Staff informed that customer that the Company had filed for a decrease to its natural gas rates. Staff Comments at 9. The second commenter applauded Avista for reducing rates during a time of economic hardship.

Staff Comments

Staff reviewed the Company's Application to verify that the Company's earnings will not change as a result of the filing. Staff Comments at 2. Staff commented that the Company's customer notices and press releases complied with applicable Commission rules (Rules of Procedure 125.04 and 125.05). *Id.* at 8. Further, Staff said the Company's hedging policies and procurement plan are appropriate and protect customers from the price risks of a changing market. *Id.* at 6-7.

Staff reviewed the Company's proposed modifications to the PGA as reflected in the Company's proposed changes to Schedules 150 and 155. *Id.* at 3-8. Staff reviewed the Company's adjustments to Schedule 150 to determine if they reasonably capture the Company's variable (commodity) costs and fixed (demand) costs. Specifically, Staff has reviewed the Company's pipeline transportation and storage costs, fixed price hedges, estimates of future commodity prices, and its risk management policies. Additionally, Staff has reviewed the proposed Schedule 155 amortization rate that "true up" expenses from the last PGA to ensure that it properly captures all of the deferral account components. *Id.* at 2.

The Company's proposed rate changes would decrease annual revenue by about $3.6 million, or 5.4%. *Id.* Under the proposed rates, a Schedule 101 residential or small business customer using an average of 60 therms per month will see a decrease of $4.42 per month, or approximately 7.9%.

Schedule 150 and the WACOG

The Company proposes a WACOG of $0.333 per therm, which is lower than the currently-approved $0.362 per therm. *Id.* at 3.[3] The Company's proposed decrease is based on the cost as of mid-July of the Company's executed hedges, current underground storage, and its estimated index price for future deliveries. Staff reviewed the Company's proposed WACOG and forecasted natural gas prices and believes they are reasonable. Staff thus recommends the Commission accept the Company's proposed WACOG.

Staff noted that the Company will continue to watch the market for changes that could materially impact natural gas prices moving forward. Staff said that if spring and summer prices significantly deviate from the proposed rates, Staff would expect the Company to return to the Commission with a new filing.

Schedule 155 – Deferred Expenses

The Schedule 155 portion of the PGA is the amortization component of the Company's deferral account. When the Company pays more for gas than what is estimated in the preceding WACOG, a surcharge is issued to customers. However, if the Company pays less for gas than what is estimated in the preceding WACOG, a credit is issued to customers.

In this Application, the Company proposes to increase the Schedule 155 amortization refund rate from $0.02885 per therm to $0.03775 per therm, which will refund about $3.1 million to customers over the next 13 months, assuming normal weather. *Id.* at 6. Staff, on the other hand, recommends that the Commission decrease the Company's proposed amortization rate to $0.01785 per therm and hold back about $1.55 million in an un-refunded credit balance. *Id.* at 7-8. Staff said the $1.55 million un-refunded credit balance will remain in the PGA deferral account and accumulate interest until it is used to offset base rate increases or is returned to customers in a future PGA. Staff notes that on August 10, 2012, Avista filed a Notice of Intent to File a General Rate Case that may result in a rate increase. *Id.* Staff says its proposed holdback can be used to reduce potential rate increases that could occur in the spring and fall of 2013, thereby improving rate stability in the long-run. Staff's proposal results in an October 1, 2012

[3] The Commission approved a $0.418 per therm WACOG in the Company's last annual PGA, and subsequently an interim PGA of $0.362 cents per therm in March 2012.

rate decrease of approximately $2.14 million in annual revenue, or about 3.2%. Staff's proposed rate adjustments are 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	($0.02931)	($0.00849)	($0.03780)	$0.009975	($0.02782)	(2.99%)
Lg. General	111	($0.02931)	($0.00849)	($0.03780)	$0.009975	($0.02782)	(3.76%)
Interruptible	131	($0.02931)	$0.00000	($0.02931	$0.015550	($0.01376)	(2.66%)

Id. at 8.

Company Reply

In reply, the Company noted that Staff recommended, among other things, that the Commission approve a modification to the proposed amortization rate (Schedule 155*)* such that approximately $1.55 million in an un-refunded credit balance be held back due to the Company's filing of a "Notice of Intent to File a General Rate Case." The Company said it supports Staff's position on this issue and that the un-refunded credit balance could be used to mitigate any potential rate increase approved by the Commission, thereby improving rate stability for customers.

DISCUSSION AND FINDINGS

The Commission has reviewed the case record, including the Application and comments. The Commission has jurisdiction over Avista Corporation, a public utility, its Application for authority to change rates and prices, and the issues involved in this case pursuant to Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502, along with the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

The Commission must establish just, reasonable, and sufficient rates for utilities subject to its jurisdiction. *Idaho Code* § 61-502. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage and other related costs of acquiring and delivering natural gas. The Company's earnings are not increased from changes in prices and revenues resulting from the annual PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

Based on our review of the record, we find it reasonable to approve the Company's proposed Schedule 150, including the proposed WACOG of $0.333 per therm. The Company's proposed WACOG was compared to other forecasts and is consistent with the forecasted northwest regional cost of natural gas.

We also find it reasonable to approve a $0.01785 per therm amortization rate for the proposed Schedule 155 deferral balances. We believe the resulting $1.55 million un-refunded credit balance will help mitigate potential rate increases and provide rate stability for customers.

Finally, the Commission directs the Company to promptly file an application amending its WACOG should gas prices materially deviate from the presently approved $0.333 per therm.

ORDER

IT IS HEREBY ORDERED that Avista Corporation's Purchased Gas Cost Adjustment (PGA) Application is approved as modified by the body of this Order. The Company shall decrease its annualized revenues by $3.6 million, establish a WACOG of $0.333 per therm, and decrease the Schedule 155 amortization rate for deferral balances to $0.01785 per therm. The Company is directed to file conforming tariffs to be effective for service rendered on and after October 1, 2012.

IT IS FURTHER ORDERED that Avista promptly file an application to amend its WACOG should gas prices materially deviate from the presently approved $0.333 per therm.

IT IS FURTHER ORDERED that Avista continue to file quarterly WACOG projections and monthly deferred cost reports with the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order. 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 25th day of September 2012.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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