KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 5156

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO CHANGE ITS RATES AND CHARGES (2013 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-13-01** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Avista Corporation's Application for its 2013 Purchased Gas Cost Adjustment (PGA).

BACKGROUND

On July 31, 2013, Avista Corporation dba Avista Utilities ("Company" or "Avista") filed its annual PGA Application asking to increase its annualized revenues by about $4.9 million (7.5%). Application at 1.[1] The Company says its proposal will not affect its earnings and will increase the average, residential or small commercial customer's rates by $3.80 per month (6.8%). *Id.* at 4. The Company asks that its Application be processed by Modified Procedure, and that the new rates take effect October 1, 2013. *Id.* at 4-5.

[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.

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. *Id.* 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 to customers any change in the estimated cost of natural gas for the next 13 months (Schedule 150); and (2) revise the amortization rates to refund or collect the balance of deferred gas costs (Schedule 155). *Id.* at 2, 4.

Avista estimates that the commodity cost (i.e., the WACOG) will increase by $0.041 per therm, from the currently approved $0.333 per therm to $0.37350 per therm. *Id.* at 3.

Avista says it periodically hedged gas throughout 2013 for the coming PGA year (13 months), and that it will hedge about 38% of its estimated annual load requirements for the PGA year (October 2013 – October 2014) at a fixed price comprised of: (1) 12% of volumes hedged for a term of one-year or less; and (2) 26% of volumes from prior multi-year hedges. *Id.* Through June, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.452 per therm. *Id.* Avista says underground storage capacity represents about 19% of its annual load requirements, with the estimated weighted average cost for all storage volumes being $0.325 per therm. *Id.*

Avista says lower overall demand, increased production, and record high storage impacted the 2012 natural gas market and drove natural gas prices to 10-year lows. But these prices trended upward for most of 2013. According to the Company, the late, colder than normal winter increased demand, reduced excess supply, and decreased storage balances to levels below the five-year average. The Company explains that this return to a more balanced market added to the uplift of natural gas prices and increased the WACOG components (hedges, index, and storage) for the upcoming PGA year above the prior year and what is currently included in rates. *Id.* at 4-5.

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

Avista's demand costs primarily represent its costs to transport gas through interstate pipelines to its distribution system. The Company proposes increasing its demand costs to principally account for the inclusion of the new Northwest Pipeline transportation rates. *Id.* at 5.

Avista proposes *increasing* the amortization rate by $0.01800 per therm (from $0.01785 per therm in the rebate direction to $0.00015 per therm in the surcharge direction). This increase is the result of fully amortizing the $1.6 million rebate deferral balance approved in the 2012 PGA (the Company says the amortization balance actually was over-amortized by about $0.1 million). The Company says this surcharge balance was mostly offset by current 2012-2013 deferrals, resulting in a deferral balance, in the surcharge direction, of about $12,000. *Id.*

STAFF REVIEW

Staff reviewed the Company's Application to determine whether the Company's proposed adjustments to Schedules 150 and 155 reasonably capture its fixed (demand) and variable (commodity) costs. More specifically, Staff reviewed the Company's pipeline transportation and storage costs, fixed price hedges, and estimates of future commodity prices. Staff also reviewed the appropriateness of the Schedule 155 change in amortization rates that "true up" the expenses from the 2012 PGA. Each component of the rate changes will be discussed in greater detail below.

If the Company's Application is approved, the following rate changes would result in about a $4.6 million increase in annual revenue, or approximately 7.50%:

Table 1: Rate Changes by Class

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	$0.04066	$0.00471	$0.04537	$0.01800	$0.06337	**6.8%**
Lg. General	111	$0.04066	$0.00471	$0.04537	$0.01800	$0.06337	**9.7%**
Interruptible	131	$0.04066	$0.00000	$0.04066	$0.00621	$0.04687	**8.3%**

Staff has confirmed that the requested change will not affect the Company's overall earnings and will only provide revenues sufficient to fund the coming year's forecasted gas purchases and a true up of the expenses from the previous year. Any over or under collection by the Company will be credited or surcharged to customers next year.

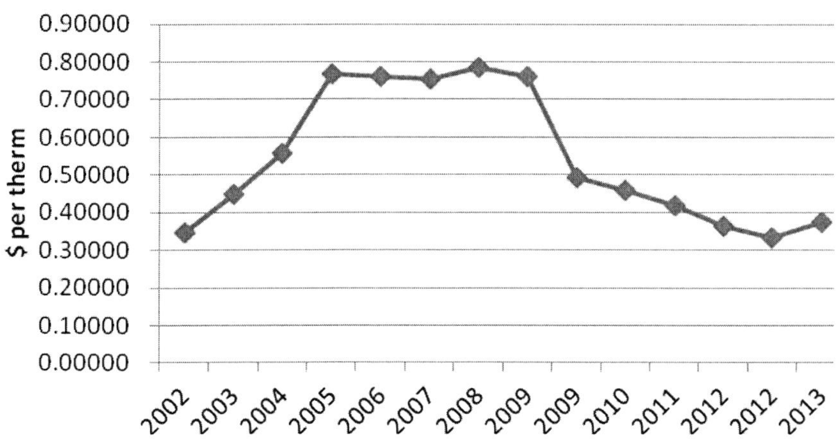
Schedule 150 – Purchased Gas Cost Adjustment

The Schedule 150 portion of the PGA consists of commodity costs (WACOG) and demand costs. The WACOG consists of costs from:

- Forecasted index purchases;
- Withdrawals from storage;
- The deferred exchange credit; and
- Executed and unexecuted hedged purchases.

With this Application, the Company proposes a WACOG of $0.37350 per therm. This is a 12% increase from the present $0.333 per therm WACOG established by Order No. 32651. Even with this increase, the WACOG is still near historical lows. Figure 1 shows the WACOG since 2002. Only 2002 and 2012 had WACOGs lower than the current proposed level.

Figure 1: Historical WACOG, 2002-2013



The WACOG increase reflects, in part, an increase in the price of natural gas. From January through July of this year, the Henry Hub spot price averaged 56% higher than it did for the same period last year. For this year's remaining months, the Henry Hub spot price is forecasted to average 16% higher than the actual price for the same months last year. Last year's forecast did not totally incorporate this increase in prices. For example, in August of 2012, the Henry Hub spot price was forecasted to be $3.22 per 1 million BTUs (MMBTU) in April of 2013. But the actual price in April of 2013 was $4.17 per MMBTU. In August of 2012, the prices for the 4th quarter of 2013 were forecasted to be about 8% lower than they were forecasted to be in August of 2013. This increase in natural gas prices reflects anticipation of a return to a normal winter (as opposed to last year's unusually warm winter), storage levels below last year's levels, and a slowdown in the growth of production. Staff has analyzed the Company's price forecast for the AECO, Sumas, and Rockies market hubs and found them to be reasonable compared to forecasts from the Energy Information Administration (EIA)[3] and market futures from the New York Mercantile Exchange (NYMEX) and the IntercontinentalExchange (ICE).

The increase in natural gas prices also affects the price of gas held in storage. The Company owns and leases rights to the Jackson Prairie storage project. Gas held here is priced 55% higher this year than last year. But this storage gives the Company peak-month access to natural gas bought at off-peak prices. While stored natural gas costs more this year than last year, it is still forecasted to be 9% cheaper than the index price during the upcoming winter season.

Coupled with the increase in natural gas prices is the expiration of a deferred exchange contract in which the Company may purchase gas in the summer from another party and sell it back to that party in the winter at the same price for a fixed monthly fee. The loss of that fixed monthly fee due to the expiration of the contract accounts for 35% of the increase in the WACOG.

In order to mitigate price volatility, the Company employs both long and short term hedges as part of its Procurement Plan. With the market conditions seen in recent years, there has been a premium paid for locking in prices. For the upcoming winter months, gas procured in executed hedges is priced 30% higher, on average, than the forecasted index price. In comparison, last year's PGA saw executed hedges priced, on average, 80% above the forecasted index price for the winter months. The hedged prices and index prices are converging because the costs associated with executed hedges are decreasing as older contracts are replaced with newer, cheaper contracts and index prices are increasing as discussed above. If market prices stay flat, as the Company believes, then this convergence will continue. If market prices increase, then it is possible that the hedged gas will be cheaper than the index gas in the future.

Avista annually reviews and revises its Procurement Plan. Recent changes have included decreasing short-term hedging and increasing purchases made at index. The Company believes the market will remain flat and that moving away from hedges will allow the Company to decrease the overall cost of natural gas by avoiding the premium associated with buying gas on the futures market. The Company has also adopted more aggressive targets for its long-term

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[3] Specifically, Staff examined forecasts published in EIA's Short-Term Energy Outlook (STEO) report.

hedges and moved away from hedging for April and October. The Company believes these changes will decrease its procurement costs. The Company meets twice a year with the Commission and Staff to discuss changes to its Procurement Plan. The next meeting is planned for October 4, 2013.

The demand costs represent the Company's cost to transport gas through pipelines to its distribution system. The Company proposes a $0.00471 per therm demand cost increase. The Company attributes this demand cost increase to higher Northwest Pipeline transportation rates. Because these rates were effective January 1, 2013, the 2012 PGA filing only included 10 months of the increased rate. This PGA filing includes these higher rates for all 13 months. The Company also notes there were rate increases for several Canadian pipelines.

Based on its review, Staff believes that the Company's hedges were prudent and its approach for estimating the forward prices and demand costs is reasonable. Staff recommends the Commission accept both the Company's proposed WACOG of $0.37350 and its proposed demand costs of $0.10798 per therm.

Schedule 155 – Deferred Expenses

The Schedule 155 portion of the PGA is the amortization of the Company's deferral account. When the Company pays less for gas than what is estimated in the preceding WACOG, a credit is issued to customers. However, if the Company pays more for gas than what is estimated in the preceding WACOG, a surcharge is added. Gas prices rebounded throughout the year causing the Company to pay more for gas than what it had anticipated in last year's filing. In this Application, the Company proposes to increase the Schedule 155 amortization rate by $0.01800 per therm (from a $0.01785 per therm credit to a $0.00015 per therm surcharge. This change in Schedule 155 will allow the Company to collect the deferral balance of $11,837 during the next 12 months based on the Company's weather normalized load forecasts.

A reconciliation of the Schedule 155 deferral balance follows:

Balance as of September 30, 2012	**$ (2,724,957)**
Reduction for GRC Offset	1,551,292
Total Amortization Balance	$ (1,153,735)
Amortization Activity	1,056,913
Total Unamortized Balance	$ (96,822)
Current Year Deferral Activity	108,659
Balance to be Amortized	**$ 11,837**

The current year deferral activity consists of the difference in the price Avista paid for natural gas and the WACOG established in the previous PGA, interest charges on the deferred amount, and capacity releases for the benefit of customers. When Avista has unused capacity, it routinely releases that capacity to other pipeline users. During the 2013 PGA year, Avista's Idaho gas customers benefitted by approximately $3 million. Without those releases, the Schedule 155 surcharge would be much greater.

Other Considerations

In the 2012 PGA case, Order No. 32651, the Commission held back about $1.55 million to be refunded to customers to use as an offset in the anticipated general rate case that Avista filed on October 11, 2012. (Case No. AVU-G-12-07). The parties to that case reached a settlement that was approved in Commission Order No. 32769. The settlement called for a two-step increase to Avista's natural gas base rates in Idaho. The first step increased base rates by 5% on April 1, 2013. A second base rate increase of 2% was approved for October 1, 2013. With the $1.55 million hold back from the 2012 PGA used to offset the October 1, 2013 increase, the base rate increase to customers will be 0.3%. The following chart illustrates the magnitude and impact of all rate adjustments on Customer Classes on October 1, 2013:

Table 2: October 1, 2013 Rate Impacts

	TOTAL	Gen Service Sched 101	Large Gen Service Sched 111 & 112	Interruptible Sched 131 & 132	Transport Sched 146
Total Billed Revenue	65,204,740	49,408,740	15,176,000	209,000	314,000
Revenue Changes 10/1/2013					
General Rate Case Increase	1,330,000	1,073,000	243,000	3,000	11,000
2012 PGA Offset (15 Mo. Amort.)	(1,131,000)	(799,000)	(326,000)	(6,000)	-
2013 PGA Increase	4,858,300	3,363,938	1,476,965	17,397	-
Total Revenue Change	**5,057,300**	**3,637,938**	**1,393,965**	**14,397**	**11,000**
Percentage Changes					
General Rate Case Increase	2.0%	2.2%	1.6%	1.4%	3.5%
2012 PGA Offset (15 Mo. Amort.)	-1.7%	-1.6%	-2.1%	-2.9%	0.0%
2013 PGA Increase	7.5%	6.8%	9.7%	8.3%	0.0%
Total Billed Percentage Change	7.8%	7.4%	9.2%	6.9%	3.5%

Customer Relations

The press release and customer notice included in Avista's Application met the requirements of the Commission's Rules of Procedure 125.04 and 125.05. IDAPA 31.01.01.125. The customer notice was mailed with cyclical billings beginning August 8, 2013 and ending September 7, 2013.

Avista filed this PGA case on July 31, 2013. The press release and customer notice covered three separate cases: the PCA (AVU-E-13-04), the PGA, and the electric Energy Efficiency Tariff Rider Adjustment (AVU-E-13-05). Changes proposed for the PCA and Tariff Rider apply only to electric rates.

As noted above, if approved, on October 1, 2013, the Company's Application is the average residential or small commercial customer using 60 therms per months will see a 6.8% increase.

Many customers struggle to pay utility bills. Staff recommends that the Commission advise all customers struggling to pay utility bills that they may qualify for financial assistance. Information regarding the federally funded Low Income Energy Assistance Program (LIHEAP) and local non-profit and other fuel funds such as Project Share in Avista's northern Idaho service territory, can be obtained by calling the nearest Community Action Agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

Customers had until September 11, 2013 to file comments. As of September 10, 2013, three customers had commented; all were opposed to an increase. One customer stated that "many customers are just barely making do" and that "Raising rates won't do anyone a bit of good if they can't afford to pay for it."

STAFF RECOMMENDATION

After thoroughly examining the Company's Application and gas purchases for the year, Staff recommends that the Commission:

1. Approve the Company's proposed Schedule 150, including the proposed WACOG of $0.37350 per therm; and
2. Approve the Company's proposed Schedule 155 amortization rate of $0.00015 per therm to allow the Company to recover its deferral balance. The combination of Staff's recommendations results in an increase to customers of approximately $4.8 million, or 7.5% of annual revenues.

Respectfully submitted this 11th day of September 2013.

Karl T. Klein
Deputy Attorney General

Technical Staff: Donn English
Cathleen McHugh
Marilyn Parker

i:umisc/comments/avug13.1kkdecmmp comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF SEPTEMBER 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-13-01, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DAVID J MEYER
VP & CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-MAIL: david.meyer@avistacorp.com

KELLY O NORWOOD
VP STATE & FED REG
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-MAIL: kelly.norwood@avistacorp.com

Jo Nelson
SECRETARY