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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF AVISTA )**  
**CORPORATION'S APPLICATION TO )** **CASE NO. AVU-G-17-06**  
**CHANGE ITS NATURAL GAS RATES AND )**  
**CHARGES (2017 PURCHASED GAS COST )** **COMMENTS OF THE**  
**ADJUSTMENT). )** **COMMISSION STAFF**  
**)**

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33963 on January 10, 2018, in Case No. AVU-G-17-06, submits the following comments.

**BACKGROUND**

On December 26, 2017, Avista Corporation dba Avista Utilities filed an update to its annual Purchased Gas Cost Adjustment (PGA) Application. By way of summary, the PGA is a Commission-approved mechanism that adjusts rates up or down to reflect changes in Avista's costs to buy natural gas from suppliers—including changes in transportation, storage, and other related costs. Avista defers these costs into its PGA account, and then passes them on to customers through an increase or decrease in rates.

With this Application, Avista proposes to *decrease* its PGA rates by about \$3.2 million (7.4%). Application at 1. The proposal would *decrease* the average residential or small commercial customer rates by \$2.73 per month (about 6.4%). Large commercial customer rates would *decrease* by about 10.3%. Avista's proposal would not affect Avista's earnings. Avista

asks the Commission to process the Application by Modified Procedure, and that the new rates take effect January 26, 2018. *Id.* at 4.

**A. Overview of Proposed Rates**

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. Avista buys natural gas and then transports it through pipelines for delivery to customers. In this PGA Application, Avista proposes passing on reductions in the estimated cost of natural gas for the next 12 months to customers (Tariff Schedule 150). The amortization rates of the deferred gas cost balance (Tariff Schedule 155) were approved in Order No. 332923, effective November 1, 2017. Avista is not proposing to change the amortization rates in this Application. Avista proposes to change its PGA rates for its two customer classes 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	\$(0.05520)	\$ -	\$(0.05520)	\$ -	\$(0.05520)	(6.7%)
Lg. General	111	\$(0.05520)	\$ -	\$(0.05520)	\$ -	\$(0.05520)	(10.3%)

*Id.* at 2. Avista’s proposed changes to Schedules 150 and 155 and Avista’s rates are further explained below.

**B. Schedules 150 and 155**

Tariff Schedule 150 portion of the PGA has two parts: the “commodity costs” and the “demand costs.”

Avista’s “commodity costs” are the variable costs at which Avista must buy natural gas. The weighted average cost of gas (WACOG) is an estimate of those costs. In this case, Avista estimates its commodity costs will *decrease* by \$0.02167 per therm, from the currently approved \$0.24058 per therm to \$0.21891 per therm. *Id.* at 3. In order to minimize exposure to potential rising gas costs, Avista diversifies how it procures natural gas. *Id.* Avista’s procurement strategy includes hedging, the use of underground storage capacity, and estimating the cost of index purchases using a 30-day historical average of forward prices for each supply basin. *Id.*

Avista is not requesting any change related to demand charges in this filing. Demand costs primarily are costs to transport gas on interstate pipelines to Avista’s local distribution

system. Avista states that any changes related to demand charges will occur in the Company's next annual PGA filing. *Id.* at 3.

Tariff Schedule 155 reflects the amortization of Avista's deferral account. Avista is not requesting any change related to amortization charges in this filing. Avista states that any changes related to amortization charges will occur in the Company's next annual PGA filing. *Id.* at 3-4.

Avista asserts it will notify customers of its proposed tariffs by means of a press release. *Id.* at 2.

### **STAFF ANALYSIS**

On October 27, 2017, the Commission approved Avista's annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by \$1.7 million or approximately 2.4%. Order No. 33923. Within that Order, the Commission approved the Company's Tariff Schedule 150 rate, including the WACOG and demand costs and Tariff Schedule 155 rate amortizing the previous year's deferral balance. The Commission further ordered the Company to "promptly apply to amend its WACOG if gas prices materially deviate from the WACOG approved in this Order."

The WACOG approved in Order No. 33923 was \$0.219 per therm, a decrease of \$0.022 per therm from the previous year. The decrease in the WACOG in that case was a result of continued high natural gas production levels and an abundance of natural gas in storage. These factors have continued to put further downward pressure on wholesale natural gas prices. In this Application, the Company is requesting to further decrease the WACOG from \$0.219 per therm to \$0.164 per therm for the remainder of the PGA year. The Company is not proposing any other changes to the PGA that was approved on October 27, 2017.

The Company's proposed WACOG was recalculated using updated index pricing and also factors in additional natural gas hedges that were entered into after the PGA was approved. Index prices were calculated by using a 30-day historical average of forward prices weighted by the supply basins (as of December 18, 2017). The annual weighted average price for these volumes is \$0.146 per therm versus the approved \$0.214 per therm included in the October 2017 PGA. The weighted average price for the new natural gas hedging contracts is \$0.230 per therm versus the approved \$0.262 per therm included in the October 2017 PGA. Simply updating these two aspects of the WACOG results in a proposed \$3.2 million revenue reduction.

Staff has reviewed the Company's Application and proposed WACOG calculation and believes that a rate reduction is necessary. Because of the desire to reduce rates expeditiously to benefit customers during the current heating season, Staff believes that the proposed update to the PGA by recalculating only the WACOG is appropriate. In the regular annual PGA to be filed later in 2018, Staff will again review the demand charges, transportation charges, and normalization methodology.

### **CUSTOMER NOTICE AND PRESS RELEASE**

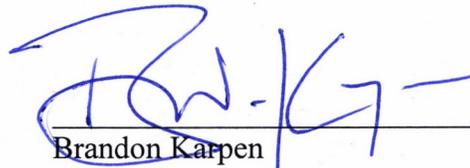
In compliance with Rule 125 of the Commission's Rules of Procedure, Avista issued a press release announcing its Application to decrease rates. See IDAPA 31.01.01.125.01, .04, and .05. The Company did not provide direct notice to its customers prior to filing its Application.

Rule 125.02 allows utilities to delay distribution of customer notices under certain circumstances. See IDAPA 31.01.01.125.02. Avista's request to reduce rates, the limited scope of this case, and the expedited review process approved by the Commission are consistent with the circumstances contemplated by Rule 125.02. Staff recommends that the Company provide customers with direct notice of the rate decrease following Commission approval.

### **STAFF RECOMMENDATION**

Staff recommends that the Commission approve the updated WACOG of \$0.164 per therm, resulting in a \$3.2 million dollar revenue decrease or approximately 7.4% reduction to be effective January 26, 2018. Staff recommends that the Company provide customers with direct notice of the rate decrease following Commission approval.

Respectfully submitted this 17<sup>th</sup> day of January 2018.

  
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Brandon Karpen  
Deputy Attorney General

Technical Staff: Donn English  
Kevin Keyt  
Mike Morrison

i:umisc/comments/avug17.6bkmmkkdejtf comments

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17<sup>th</sup> DAY OF JANUARY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-G-17-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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