

Agenda Date: October 28, 2011  
Item Number: A3

**Docket:** UG-111665  
Company Name: Avista Corporation

Staff: Kathryn Breda, Regulatory Analyst  
E. J. Keating, Regulatory Analyst

### **Recommendation**

Take no action, allowing the tariff filings made by Avista Corporation (Avista or company) in Docket UG-111665 to take effect November 1, 2011, by operation of law.

### **Background**

On September 15, 2011, Avista filed revisions to its Purchase Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Docket UG-111665. The net effect of the proposed filings is an increase in annual gas sales revenues of approximately \$1.5 million or approximately 1.0 percent.

The PGA and deferred gas cost amortization mechanisms are designed to pass through to customers the utility's actual cost of natural gas on a periodic basis. The PGA establishes for the upcoming year a projection of the utility's gas costs reflected in Schedule 150. The difference between the projected cost from the previous PGA filing, and the actual cost incurred for the period, is deferred and ultimately amortized back to customers with interest, as a refund or a surcharge reflected in Schedule 155.

This year Schedule 155 includes approximately \$76,000 for the recognition of additional Jackson Prairie storage and related operations and maintenance expense for the period May 1, 2011, through June 30, 2011, consistent with Order No. 7 in Dockets UE-100467 and UG-100468 (consolidated). The Order states:

...The revenue requirement associated with Avista's rate of return applied to the actual balance of the additional JP working gas inventory applicable to Washington gas operations shall be calculated as a deferred cost beginning May 1, 2011 to be recovered in the Company's future PGA filings starting with Avista's fall 2011 PGA filing, until recovered in base rates in a subsequent general rate case. In addition, the additional operations and maintenance costs shall be recorded in the Company's PGA deferrals for later recovery in rates until those costs are included in base retail rates.<sup>1</sup>

This recognition of the additional Jackson Prairie storage will continue to the next PGA period and end when new rates go into effect incorporating this additional storage.

Avista, a combined electric and gas utility, serves approximately 148,000 gas customers in Eastern Washington.

---

<sup>1</sup> *Utilities and Transportation Commission v. Avista Corporation*, Docket UE-100467 and Docket UG-100468 consolidated, Order 07 (November 19, 2010) Page 12

**Discussion**

**Purchase Gas Cost Adjustment, Schedule No. 150**

Avista’s Schedule 150 reflects the projected costs of purchased gas for the coming year; November 2011 through October 2012. In its filing, the company proposes an estimated residential weighted average cost of gas (WACOG) of \$0.52379 per therm (\$0.41511 commodity and \$0.10868 demand) resulting in an estimated overall annual decrease in sales revenues of approximately \$6.5 million.

Estimated commodity costs are projected to decrease \$0.04338 per therm. Approximately 70% of the estimated annual load requirements are hedged at a fixed price. The portion hedged is comprised of: (1) one-year or less hedges representing about 30% of the volume, (2) prior multi-year hedges representing about 20% of the volume and (3) Jackson Prairie underground storage representing about 20% of the volumes. Avista uses a 30-day historical average of forward prices, ending August 22, 2011, by supply basin to develop the estimate of index/spot purchases which represent about 30% of the estimated annual load.

Demand costs represent the cost of pipeline transportation to the company’s system. Projected demand costs increased approximately \$0.00700 per therm primarily due to an increase in Gas Transmission Northwest rates.

**Gas Cost Deferral Amortization, Schedule No. 155**

Schedule 155 reflects the gas cost deferral accumulated during the prior years. Currently Avista has an over-collection or deferred refund balance of \$5.1 million, as compared to \$13.5 million from the previous PGA filing period. The proposed rates reflect an increase of approximately \$0.05000 per therm reflecting a smaller refund rate than the previous PGA due to this declining balance. As mentioned above, recognition of additional Jackson Prairie storage and related operations and maintenance expense, for the period May 1, 2011, through June 30, 2011, decreased the refund balance approximately \$76,000.

**Revenue and Residential Bill Impacts**

The combined effect of the tariff change for Schedules 150 and 155 is an overall revenue increase from gas sales customers of \$1.5 million or approximately 1.0 percent.

Revenue Impact by Customer Class  
 Dollars in Millions

|                     | Schedule Number | Schedule 150   | Schedule 155 | Total Revenue Impact |            |
|---------------------|-----------------|----------------|--------------|----------------------|------------|
|                     |                 | PGA            | Amortization | Increase             | Percentage |
|                     |                 | Decrease       | Increase     |                      |            |
| Residential         | 101             | (\$4.4)        | \$5.7        | \$1.2                |            |
| Commerical          | 111&112         | (\$1.8)        | \$2.3        | \$0.5                |            |
| Industrial-Firm     | 121&122         | (\$0.2)        | (\$0.0)      | (\$0.2)              |            |
| <b>Total Change</b> |                 | <b>(\$6.5)</b> | <b>\$7.9</b> | <b>\$1.5</b>         |            |

The impact of this filing on a residential customer with monthly average consumption of 67 therms is an increase of \$0.72 per month or 1.16 percent, for a revised bill of \$63.05.

### **Customer Comments**

The company notified its customers by press release on September 15, 2011, and bill insert beginning September 20, 2011. The company explained the PGA process and the anticipated rate change. The commission did not receive any comments on this filing.

### **Conclusion**

Staff has reviewed Avista's prospective gas costs and deferral amortization rates proposed in its filings and find them to be reasonable. Therefore, Staff recommends the Commission take no action, allowing the tariff filing in Docket UG-111665 to become effective November 1, 2011, by operation of law.