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Executive Director and Secretary
Washington Utilities & Transportation Commission
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COMMISSION

RE: WN U-29 Natural Gas Service - Avista’s Annual Purchased Gas Cost Adjustment (PGA)

Enclosed for electronic filing with the Commission is a copy of the following proposed tariff sheets:

Twenty-Fourth Revision Sheet 150 canceling Substitute Twenty-Third Revision Sheet 150
Twenty-Fourth Revision Sheet 155 canceling Substitute Twenty-Third Revision Sheet 155
Ninth Revision Sheet 149 canceling Eighth Revision Sheet 149

This filing is the Company’s annual Purchased Gas Cost Adjustment (“PGA”) to: 1) pass through changes in the estimated cost of natural gas for the forthcoming year (Schedule 150), and 2) revise the amortization rate(s) to refund or collect the balance of deferred natural gas commodity and demand costs (Schedule 155). The Company is requesting an overall revenue increase of \$17.5 million, or 10.6 percent, effective November 1, 2021. Below is a table summarizing the proposed rate changes reflected in this filing.

<u>Service Schedule</u>	<u>Sch. No.</u>	<u>Commodity Change per therm</u>	<u>Demand Change per therm</u>	<u>Total Sch. 150 Change</u>	<u>Sch. 155 Amort. per therm</u>	<u>Total PGA Rate Change per therm</u>
General	101	\$ 0.06436	\$ (0.00470)	\$ 0.05966	\$ 0.02830	\$ 0.08796
Fixed income	102	\$ 0.06436	\$ (0.00470)	\$ 0.05966	\$ 0.02830	\$ 0.08796
Large General	111	\$ 0.06436	\$ (0.00108)	\$ 0.06328	\$ 0.03050	\$ 0.09378
Large General	112	\$ 0.06436	\$ (0.00108)	\$ 0.06328	\$ -	\$ 0.06328
Interruptible	131	\$ 0.06436	\$ (0.00207)	\$ 0.06229	\$ -	\$ 0.06229
Interruptible	132	\$ 0.06436	\$ (0.00207)	\$ 0.06229	\$ -	\$ 0.06229

Commodity Costs

The estimated Weighted Average Cost of Gas (“WACOG”) change is an increase of \$0.06436 per therm. The proposed WACOG \$0.23350 per therm compared to the present WACOG of \$0.16914 per therm included in rates. The cost of natural gas commodity remains relatively low in comparison to historical periods, however, wholesale natural gas prices in recent months as well as the forward prices have risen substantially compared to the level presently included in rates. The market factors attributing to the rise in prices is an overall increase in demand and lower supply. The main driver in demand has been record exports to Mexico, elevated liquified natural gas (LNG) exports, and increased use for power generation. On the supply side, production has been slow to ramp up to pre-pandemic levels, putting pressure on wholesale prices. The increase of \$0.06436 is reflective of the volatile nature of the commodity cost itself year-over-year.

The Company’s natural gas Procurement Plan (“Plan”) uses a diversified approach to procure natural gas for the coming PGA year. While the Plan generally incorporates a more structured approach for the hedging portion of the portfolio, the Company exercises flexibility and discretion in all areas of the plan based on changes in the wholesale market. The Company typically communicates with Commission Staff semi-annually to inform as to the state of the wholesale market and the status of the Company’s Plan. In addition, the Company communicates with Staff when it believes it makes sense to deviate from its Plan and/or opportunities arise in the market.

Avista has been hedging natural gas on both a periodic and discretionary basis throughout the previous 36 months for the forthcoming PGA year. Approximately 28% of estimated annual load requirements for the PGA year (November 2021 through October 2022) has been hedged at a fixed-price derived from the Company’s Plan. Through June, the hedge volumes for the PGA year have been executed at a weighted average price of \$1.88 per dekatherm (\$0.188 per therm).

The Company used AECO forward prices as of June 30, 2021 to develop an estimated cost associated with index purchases. These index purchases represent approximately 72% of estimated annual load requirements for the coming year. The annual weighted average price for these volumes is \$2.55 per dekatherm (\$0.255 per therm).

Demand Costs

Demand costs reflect the cost of pipeline transportation to the Company’s system, as well as fixed costs associated with natural gas storage. Demand costs are expected to slightly decrease for residential customers by approximately \$0.0047 per therm. This change is related to a combination of various factors including Canadian exchange rate, updated demand forecast, and pipeline tariff changes for our Canadian pipelines.



Schedule 155 / Amortization Rate Change

The proposed amortization rate change for Schedule 101 and Schedule 102 is an increase of \$0.02830 per therm. The current rate applicable to Schedule 101 and Schedule 102 is \$0.00731 per therm in the rebate direction; the proposed rate is \$0.02099 per therm in the surcharge direction.

Related to the Commodity portion of the amortization, except for the spike in prices that resulted from the Arctic freeze in the Southwest in February, the winter of 2020-2021 prices remained stable. However, natural gas commodity prices have been on an upward trajectory during the second quarter of 2021. Demand costs are impacted by a variety of factors including the Canadian exchange rate, demand volumes, and changes in pipeline rates. Higher prices, reflective of a combination of these of factors, has resulted in a surcharge balance of approximately \$4.4 million as of June 30, 2021. The Company did not include any estimates in this year's filing.

Schedule 149 / Backup and Supplemental Compressed Natural Gas Service

The Company has also included Schedule 149, "Backup and Supplemental Compressed Natural Gas Service" to reflect the new first block billing rate for Schedule 111. That rate is one of the key components to determine the Retail Rate per Gas Gallon Equivalent under that schedule. Several of the adder schedule rates incorporated in the billing rate for Schedule 111 are pending approval at this time (Schedule 150 – Purchased Gas Cost Adjustment, Schedule 155 – Gas Rate Adjustment, and Schedule 192 – LIRAP). Should the Commission approve a rate that is different from what the Company has proposed to go into effect for any of these adder schedules, the Company will file a substitute Schedule 149 tariff to reflect the approved billing rate for Schedule 111.

Other Information

Guidance provided in Docket No. UG-132019's "Policy and Interpretive Statement on Local Distribution Companies' Natural Gas Hedging Practices" ("Policy Statement") requires that Avista shall file, by the deadline for submitting the 2021 PGA filing, an annual comprehensive hedging plan that demonstrates the integration of risk responsive strategies into the Company's overall hedging framework. That report is being filed as an attachment with this filing.

Summary

The annual revenue change reflected in this filing is an *increase* of \$17.5 million in annual natural gas revenue, or 10.6%. The average residential or small commercial customer using 66 therms per month will see an increase of \$5.81 per month, or approximately 10.0%. The present bill for 66 therms is \$58.23 while the proposed bill is \$64.04. The proposed rate change will vary based on a customer's usage and service schedule.



Also enclosed are the workpapers supporting the proposed rate changes and a bill insert to customers regarding the proposed increase. Please note that Attachment E and Attachment H are Confidential as they contain individual counterparty name and pricing information that is confidential. Therefore, per WAC 480-07-160, Attachment E is being provided in a confidential and redacted version. The entire content of Attachment H is confidential in nature, therefore, only a confidential version is being provided. Also, Attachment H is being provided in excel format only given the detailed and electronic nature of the information provided.

If you have any questions regarding this filing, please call Marcus Garbarino at 509-495-2567.

Sincerely,

/S/Patrick D. Ehrbar

Patrick D. Ehrbar
Director of Regulatory Affairs

