

Agenda Date: October 30, 2013
Item Number: A8

Docket: UG-131748
Company Name: Avista Corporation

Staff: E. J. Keating, Regulatory Analyst
Jason Ball, Regulatory Analyst

Recommendation

Take no action, thereby allowing the Tariff Revisions filed by Avista Corporation in Docket UG-131748, to take effect November 1, 2013, by operation of law.

Background

On September 13, 2013, Avista Corporation (Avista or company) filed revisions to its Purchase Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Docket UG-131748. The net effect of the proposed filings is an increase in annual gas revenue of \$13.7 million or approximately 9.2 percent.

<u>Docket</u>	<u>Description</u>	<u>Revenue Change</u>	<u>Percent of Total Revenue</u>
UG-131748	Forward-Looking	\$ 7,426,448	5.00 percent
UG-131748	Amortization	<u>\$ 6,270,611</u>	<u>4.21 percent</u>
Total Impact of Rate Changes		<u>\$13,697,059</u>	<u>9.21 percent</u>

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.

Avista, a combined electric and gas utility, serves approximately 150,000 gas customers in Eastern Washington.

Discussion

Purchased Gas Adjustment

Avista's Schedule 150 reflects the projected costs of purchased gas for the coming PGA year; November 2013 through October 2014. In its filing, the company proposes an estimated residential weighted average cost of gas (WACOG) of \$0.47578 per therm (\$0.3628 commodity and \$0.11298 demand) resulting in an estimated overall annual increase in sales revenues of approximately \$7.4 million.

Avista's Schedule 155 reflects deferred costs that are the result of differences between prior years projected gas costs and the actual realized costs. In this filing the difference between prior year's deferral balances and the current year deferral balance resulted in a net surcharge to customers of approximately \$6.3 million.

Commodity Cost

In arriving at an estimated commodity cost for the coming year, the company uses a variety of known and estimated inputs. Known inputs include volume of gas to be delivered within the PGA year hedged at a fixed price and actual cost and volume of gas in storage. Estimated inputs include load for the PGA year, future spot/index prices, and fixed price hedges that will be transacted in, and for, the PGA year.

Approximately 40 percent of Avista's estimated annual load requirements are hedged at a fixed price. The portion hedged is comprised of two types of hedging arrangements: fixed price hedges lasting one-year or less representing about 11 percent of the volume, and prior multi-year fixed price hedges representing about 29 percent of the volume.

The remaining balance of Avista's estimated annual load is based on the price of gas stored in Jackson Prairie (21 percent) and estimates of remaining load to be transacted at index/spot market prices (39 percent.) Avista uses a 30-day historical average of forward prices, ending August 26, 2013, by supply basin to develop the estimate of index/spot purchases. In today's filing Avista's estimated commodity costs are projected to increase by \$0.03228 per therm from the current commodity cost of \$0.33052 to \$0.36280 for the upcoming PGA period of November 2013 to October 2014.

Avista's percentage of fixed priced hedging slightly decreased to 40 percent of estimated annual load from 41 percent in the prior period PGA. Volumes hedged for a term of one year or less increased to 11 percent of estimated annual load from 10 percent in the prior period PGA. Volumes from prior multi-year hedges decreased to 29 percent of estimated annual load from 31 percent in the prior period PGA.

Avista increased index/spot purchases to 39 percent of estimated annual load requirements from 37 percent in the prior period PGA.

Demand Costs

Demand costs represent the cost of pipeline transportation to the company's system. Projected demand costs increased approximately \$0.00878 per therm for residential and small commercial users (Schedule 101) from a current demand cost of \$0.10420 to \$0.11298 for the upcoming PGA period.

Deferred Gas Cost

Schedule 155 reflects the amortization rate of the gas cost deferral balance accumulated during the prior years. This difference is amortized to customers, as a rebate or a surcharge with interest. The proposed deferred balance reverses the prior PGA period from a net rebate to a net surcharge position. Avista's proposal increases the amortization rate for Schedule 101 customers to \$0.00332 per therm from (\$0.03176) for a total increase of \$0.03508 per therm.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in an increase of approximately \$13.7 million (including revenue sensitive items) or a 9.2 percent increase in annual gas revenues.

Customer Class	Schedule Number	Schedule 150 PGA	Schedule 155 Deferral Amortization	Total Revenue Impact	Percent Change
Residential	101	\$5,153,776	\$4,367,989	\$9,521,765	
Commercial	111	\$2,002,181	\$1,638,374	\$3,640,555	
Industrial-Firm	121 & 122	\$247,668	\$263,563	\$511,231	
Interruptible	132	\$22,823	\$5,904	\$28,727	
Transportation	146		(\$5,219)	(5,219)	
Total Change				\$13,697,059	9.21%

The following is a breakdown of the \$13.7 million increase in gas revenues:

Deferral Amortization – Approximately \$6.3 million or 46 percent of the increase is the result of a rebate of \$5.6 million in the prior PGA period changing to a net surcharge of approximately \$0.7 million in the current PGA period.¹

Demand – Approximately \$1.5 million or 11 percent of the increase is the result of a full years inclusion of higher Northwest Pipeline transportation rates effective January 1, 2013 and increases in rates for several Canadian pipelines the company uses to transport gas.

Commodity – Approximately \$5.9 million or 43 percent of the increase is the result of higher known and estimated commodity costs. Approximately \$2.5 million of the \$5.9 million increase in commodity costs is the result of a decrease in commodity revenue from an expiring Deferred Exchange Contract.² In addition, average gas prices stored at Jackson Prairie increased to \$2.88 per dekatherm in the current PGA period from \$2.10 per dekatherm in the prior PGA period. The remaining increase in estimated commodity costs resulted from a higher 30-day historical average of forward prices of \$3.31 per dekatherm versus \$2.94 per dekatherm in the prior PGA period.

¹ Included in this increase is a partial offset to deferred gas costs from the Cochrane Natural Gas Liquid (NGL) Extraction Facility located in southern Canada. NGL extraction is the process of removing fluids and other hydrocarbons from natural gas supplies to create "dry" natural gas. This facility compensates pipeline users for liquids removed and sold in the open market. During the prior PGA period the total amount of the credit was approximately \$600,000

² The Deferred Exchange Contract (DEC) is a program where the company agrees to purchase gas from a third party during the off-peak season at a set price and then sell gas to the same third-party during the on-peak season at the same price plus a fixed charge. The net benefit provided to WA rate payers from the DEC has been approximately \$4.2 million per year. This agreement will expire in March 2014. As a result, the overall benefit for the upcoming PGA year is reduced by \$2.5 million. The expiration of the DEC results in a net increase in rates and accounts for approximately 19 percent of the total rate increase proposed by the company.

Residential Bill Impacts

The impact of this filing on a residential customer with monthly average consumption of 68 therms is an increase of \$5.44 per month or 9.4 percent, for a revised bill of \$63.07 versus a current bill of \$57.63.

The following chart shows the estimated residential customer commodity and demand charges for the gas LDC's regulated by this commission.³

WACOG	Avista	Puget Sound Energy	Northwest Natural	Cascade Natural Gas
Commodity	\$0.36280	\$0.40747	\$0.37961	\$0.43796
Demand	\$0.11298	\$0.15127	\$0.13393	\$0.16394
Total	\$0.47578	\$0.55874	\$0.50394	\$0.60190

Customer Comments

See attachment A.

Conclusion

Staff has reviewed Avista's expected gas costs (Schedule 150) and deferral amortization rates (Schedule 155) proposed in the company's filing and find them to be reasonable. Therefore staff recommends the commission take no action, thereby allowing the tariff filing in Docket UG-131748 to become effective November 1, 2013, by operation of law.

³ Commodity and demand charges for all LDC's are *before* revenue sensitive items.

Attachment A

Customer Comments

Avista mailed bill inserts to customers explaining the Purchased Gas Cost Adjustment and issued a news release to advise media in its service territory of the specifics of the filing. The commission received 16 customer comments, all opposed to the increase. Subtotals may not equal the total number of comments submitted because customers often address more than one issue.

Consumer Protection staff advised consumers that they can access company documents about this case at www.utc.wa.gov and contact Roger Kouchi at 1-888-333-9882 if they have questions. The consumers were also informed of the opportunity to participate at the open meeting.

Service Quality

- One customer commented his service was out for three days due to lightning storms.

Staff Response: The customer was informed that he should first contact the company to resolve his service quality issue. If the company does not provide a satisfactory response to the complaint, the customer was advised to contact the commission's consumer protection staff and file an informal complaint.

General Comments

- Two customers believe that Avista is not reducing its costs enough based on profits made from the low wholesale price of natural gas. Two customers stated that the increase is much higher than the inflation rate.

Staff Response:

Staff advised the customers that Avista receives no profit from the wholesale purchase of natural gas. Staff provided the consumer the fact sheet entitled Understanding Purchased Gas Cost Adjustments.

- Thirteen consumers expressed frustration with the frequent rate increases. They stated that economic conditions are bad, the CEO and executive officers are paid too much, their bills are already too high, they are having a difficult time because they are on fixed income and their bills continue to increase. These customers oppose a rate increase.

Staff Response:

Customers were advised that state law requires rates to be fair, just, reasonable and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on investment. They were also advised that the commission's regulatory staff will review this filing to ensure that all rates and fees are appropriate.