

Agenda Date: October 30, 2014
Item Number: A3

Docket: UG-143328
Company Name: Avista Corporation

Staff: Joanna Huang, Regulatory Analyst
Jing Liu, Regulatory Analyst

Recommendation

Take no action, thereby allowing the Tariff Revisions filed by Avista Corporation in Docket UG-143328, to take effect November 1, 2014, by operation of law.

Background

On September 12, 2014, Avista Corporation (Avista or company) filed revisions to its Purchase Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Docket UG-143328. The net effect of the proposed filings is an increase in annual gas revenue of \$1.9 million or approximately 1.22 percent.

<u>Docket</u>	<u>Description</u>	<u>Revenue Change</u>	<u>Percent of Total Revenue</u>
UG-143328	Forward-Looking	\$ 4,994,361	3.10 percent
UG-143328	Amortization	<u>\$(2,999,100)</u>	- <u>1.88 percent</u>
Total Impact of Rate Changes		<u>\$ 1,945,261</u>	<u>1.22 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, which covers November 2014 through October 2015. Currently, Avista's embedded Weighted Average Cost of Gas (WACOG) is \$0.49803 per therm (\$0.37977 commodity and \$0.11826 firm demand). The proposed WACOG is \$ 0.52688 per therm (\$0.40303 commodity and \$0.12385 firm demand). This portion of filing results in an estimated overall annual increase in sales revenues of approximately \$4.9 million or 3.1 percent.

Avista's Schedule 155 reflects deferred costs that are the result of differences between prior years projected gas costs and the actual realized costs from July 1, 2013 through June 30, 2014.

In this filing the difference between prior year's deferral balances and the current year deferral balance resulted in a net refund to customers of approximately \$3.0 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.

Avista uses a 30-day historical average of forward prices, ending August 18, 2014, 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 \$0.02217 per therm from the current commodity cost of \$0.36280 to \$0.38497 (before revenue sensitive tax) for the upcoming PGA period of November 2014 to October 2015.

Demand Costs

Demand costs represent the cost of pipeline transportation to the company's local distribution system. This portion of slight increase is due to the increase on TCPL-Alberta Pipeline capacity and an expiration of short-term capacity release credits on Northwest Pipeline.

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. Last year's PGA amortization balance was based on approximately \$718,223.54 surcharge. And this year's proposed deferred balance amortization balance is approximately \$2.1 million rebate. Therefore, this portion of filing results in an estimated overall annual decrease in sales revenues of approximately \$2.9 million.

In addition to regular deferral balance, this portion of filing also includes two other adjustments. One is the net benefit from the new Deferred Exchange contract with a counterparty. This net benefit is approximately \$1,125,000. Second is the error related to the allocation of natural gas transport cost between Avista's power supply operations and its natural gas distribution operations. The net effect of this error results in a decrease in amortization deferral account of \$1,156,794.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in an increase of approximately \$1.9 million (including revenue sensitive items) or a 1.22 percent increase in annual gas revenues, as detailed in the following table.

Customer Class	Schedule Number	Schedule 150 PGA	Schedule 155 Deferral Amortization	Total Revenue Impact	Percent Change
Residential	101	\$3,375,369	\$(2,196,976)	\$1,178,393	1.03 %
Commercial	111	\$1,350,652	\$ (691,541)	\$ 659,111	1.83 %
Industrial-Firm	121&122	\$ 183,919	\$ (33,954)	\$ 149,965	3.59 %
Interruptible	132	\$ 34,421	\$ (863)	\$ 33,558	4.21 %
Transportation	146		\$ (2,598)	\$ (2,598)	-0.11%
Other			\$ (73,169)	\$(73,169)	-0.05%
Total Change		\$ 4,994,361	\$(2,999,100)	\$1,945,261	1.22%

Residential Bill Impacts

The impact of this filing on a residential customer with monthly average consumption of 65 therms is an increase of \$0.65 per month or 1.1 percent, for a proposed bill of \$61.84 versus a current bill of \$61.19.

The following chart shows the estimated residential customer commodity and demand charges for the gas LDC's regulated by this commission.¹

WACOG	Avista	Puget Sound Energy	Northwest Natural	Cascade Natural Gas
Commodity	\$0.38497	\$0.40038	\$0.40999	\$0.43750
Demand (firm)	\$0.11830	\$0.13661	\$0.11970	\$0.19486
Total	\$0.50327	\$0.53699	\$0.52969	\$0.63236

Customer Comments

Avista Corporation notified its customers of the proposed rate increase through a news release and bill inserts mailed to customers in the September and October. The commission received one customer comment opposing the increase.

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-143328 to become effective November 1, 2014, by operation of law.

¹ Commodity and demand charges for all LDC's are *before* revenue sensitive items for comparison purpose.