

Agenda Date: October 27, 2016
Item Number: A1

Docket: UG-161037
Company Name: Avista Corporation

Staff: Joanna Huang, Regulatory Analyst

Recommendation

Take no action, thereby allowing the Tariff Revisions filed by Avista Corporation in Docket UG-161037, to take effect November 1, 2016, by operation of law.

Background

On August 31, 2016, Avista Corporation (Avista or company) filed revisions to its Purchased Gas Adjustment (PGA) deferred gas cost amortization tariffs in Docket UG-161037. The net effect of the proposed PGA and Deferral filings is an decrease in annual gas revenue of \$12.8 million or approximately 8 percent.

| <u>Docket</u> | <u>Description</u> | <u>Revenue Change</u> | <u>Percent of Total Revenue</u> |
|------------------------------|--------------------|-----------------------|---------------------------------|
| UG-160137 | Forward-Looking | \$(1,086,465) | (0.68) percent |
| UG-160137 | Amortization | <u>(11,717,336)</u> | <u>(7.34) percent</u> |
| Total Impact of Rate Changes | | <u>\$(12,803,800)</u> | <u>(8.02) 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 155,000 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 2016 through October 2017. Currently, Avista's embedded Weighted Average Cost of Gas (WACOG) is \$0.37164 per therm (\$0.25031 commodity and \$0.12133 firm demand). The proposed WACOG is \$ 0.36538 per therm (\$0.23860 commodity and \$0.12678 firm demand).¹ This portion of filing results in an estimated overall annual decrease in sales revenues of approximately \$1.1 million or 0.68 percent.

¹ The listed charges are *before* revenue sensitive items for comparison purpose

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, 2015, through June 30, 2016. 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 \$11.7 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 for the PGA year.

Avista uses a 30-day historical average of forward prices, ending July 15, 2016, by supply basins to develop the estimate of index purchases. In today's filing Avista's estimated commodity costs are projected to decrease by \$0.0117 per therm from the current commodity cost of \$0.25031 to \$0.23860 (before revenue sensitive tax) for the upcoming PGA period of November 2016 to October 2017.

The primary driver for the WACOG reduction is the continued increase in natural gas supply, and overall reduction in customer demand, which result in lower wholesale natural gas prices.

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 reduction in Northwest pipeline capacity release revenue Avista has been receiving.

Deferred Gas Cost

Schedule 155 reflects the amortization rate of the gas cost deferral balance accumulated during the prior year. This difference is amortized to customers, as a rebate or a surcharge with interest. Last year's PGA amortization balance was based on approximately \$3.9 million refund. And this year's proposed deferred balance amortization balance is approximately \$15.6 million refund. Therefore, this portion of filing results in an estimated overall annual increase in refund of approximately \$11.7 million.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in an decrease of approximately \$12.8 million (including revenue sensitive items) or an 8 percent decrease 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 | (\$0.00610) | (\$0.06910) | \$ (9,078,242) | -7.8 % |
| Commercial | 111 | (\$0.00721) | (\$0.06148) | \$ (3,265,437) | -9.5 % |
| Industrial-Firm | 121 | (\$0.00029) | (\$0.05203) | \$ (262,020) | -8.7 % |
| Interruptible | 132 | (\$0.00847) | \$0.00013 | \$ (9,308) | -1.7 % |
| Transportation | 146 | | \$0.00002 | \$ 640 | 0.03% |
| Other | | | | \$ (189,433) | - 0.01% |
| Total Change | | | | \$(12,803,800) | -8.0% |

Residential Bill Impacts

The impact of this filing on a residential customer with monthly average consumption of 66 therms is an decrease of \$4.96 per month or 8 percent, for a proposed bill of \$56.89 versus a current bill of \$61.85.

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-161037 to become effective November 1, 2016, by operation of law.