Agenda Date:	January 25, 2018
Item Number:	A1
Docket:	**UG-171206**
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-171206, to take effect January 26, 2018, by operation of law.

Background

On December 22, 2018, Avista Corporation (Avista or company) filed revisions to its Purchased Gas Adjustment (PGA) tariff. This proposed "out of cycle" PGA filing is to re-set its future-looking commodity cost of natural gas (Schedule 150) for the 10-month period January 1, 2018 through October 31, 2018. The net effect of the proposed PGA is a decrease in annual gas revenue of $7.3 million or approximately 7.1 percent.

Docket	Description	Revenue Change	Percent of Total Revenue
UG-171206	Forward-Looking	$(7,252,523)	(7.06) percent
--------	Amortization	(0)	(0) percent
Total Impact of Rate Changes		$(7,252,523)	(7.06) percent

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 proposes no change the amortization established in October 2017 PGA filing.

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 10 months of January through October 2018. Currently, Avista's embedded Weighted Average Cost of Gas (WACOG) is $0.32561 per therm ($0.21817 commodity and $0.10744 firm demand). The proposed WACOG is $ 0.27180 per therm ($0.16436 commodity and $0.10744 firm demand).[1] There is no change in the demand portion of WACOG. This portion of filing results in an estimated overall annual decrease in sales revenues of approximately $7.3 million, 7.1 percent.

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[1] The listed charges are *before* revenue sensitive items.

Commodity Cost

On August 31, 2017, Avista filed its annual Purchased Gas Adjustment and Deferral amortization filing in Docket UG-170932. Avista estimated commodity cost for the coming year. The company uses a variety of known and estimated inputs. Known inputs include estimated volume of gas to be delivered within the PGA year including hedges 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.

In this filing, the primary driver for the commodity portion of WACOG reduction is the continued high natural gas production levels, and an abundance of natural gas in storage, which result in lower wholesale natural gas prices. In addition, the Company entered into additional natural hedges after it filed its last PGA filing in Docket UG-170932. The hedged commodity portion of WACOG fell from $0.263 to $0.233 per therm.

Avista uses a 30-day historical average of forward prices, ending December 18, 2017, by supply basins to develop the estimate of index purchases. In today's filing Avista's estimated commodity costs are projected to decrease by $0.05381 per therm from the current commodity cost of $0.21871 to $0.16436 (before revenue sensitive tax) for the period of January to October 2018. Avista proposed to reduce the commodity portion of WACOG to provide customers the immediate benefit from this reduction during the winter heating season instead of waiting till next November. Furthermore, if this reduced commodity portion of WACOG is not reflected properly in its Schedule 150, Avista will likely incur significant refund in its deferral balance by the time it files its annual in November 2018. These significant refund will be compounded by FERC interest rate through out the year.

Demand Costs

Demand costs represent the cost of pipeline transportation to the company's local distribution system. Avista did not propose to change this portion of estimated cost of natural gas reflected in Schedule 150.

The following chart shows the residential customer commodity and demand charges for the natural gas LDC's regulated by this commission.[2]

WACOG	Avista	Puget Sound Energy	NW Natural	Cascade Natural Gas
Commodity	0.16436	$0.24068	$0.25856	$0.27336
Demand (firm)	0.10744	$0.12683	$0.11626	$0.16731
Total	**0.27180**	**$0.36751**	**$0.37482**	**$0.44067**

[2] Commodity and demand charges for all LDC's are *before* revenue sensitive items for comparision purposes.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in a decrease of approximately $7.3 million or a 7.06 percent decrease in annual gas revenues, as detailed in the following table.

Customer Class	Schedule Number	Schedule 150 Commodity	Schedule 150 Demand	Schedule 155 Deferral Amortization	Total Revenue Impact	Percent Change
Residential	101	($0.05641)	0	0	$ (4,858,101)	- 6.5 %
Commercial	111	($0.05641)	0	0	$ (2,102,758)	-9.6 %
Industrial-Firm	121	($0.05641)	0	0	$ (162,346)	-10.6 %
Industrial-Firm	122	($0.05641)	0	0	$ (22,138)	-10.5%
Interruptible	132	($0.05641)	0	0	$ (107,180)	- 31.9%
Total Change					$ (7,252,523)	-7.1%

Residential Bill Impacts

The impact of this filing on a residential customer with monthly average consumption of 54 therms is a decrease of $3.05 per month or 6.3 percent, for a proposed bill of $45.39 versus a current bill of $48.44.

<u>Conclusion</u>

Staff has reviewed Avista's expected gas costs (Schedule 150) 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-171206 to become effective January 26, 2018, by operation of law.