Agenda Date: October 26, 2017

Item Number: A5

**Docket: UG-170932**

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-170932, to take effect November 1, 2017, by operation of law.

**Background**

On August 31, 2017, Avista Corporation (Avista or company) filed revisions to its Purchased Gas Adjustment (PGA) deferred gas cost amortization tariffs in Docket UG-170932, along with its Decoupling Rate Adjustment in Docket UE-170942. The net effect of the proposed PGA and Deferal filings is a decrease in annual gas revenue of $12.8 million or approximately 8 percent.

Docket Description Revenue Change Percent of Total Revenue

UG-170932 Forward-Looking $( 7,671,052) (5.11) percent

UG-170932 Amortization ( 133,048) (0.09) percent

Total Impact of Rate Changes $( 7,804,100) (5.20) percent

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 2017 through October 2018. Currently, Avista’s embedded Weighted Average Cost of Gas (WACOG) is $0.36538 per therm ($0.23860 commodity and $0.12678 firm demand). The proposed WACOG is $ 0.32561 per therm ($0.21817 commodity and $0.10744 firm demand).[[1]](#footnote-1) This portion of filing results in an estimated overall annual decrease in sales revenues of approximately $7.7 million or 5.11 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, 2016, through June 30, 2017. 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 31, 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 $0.02043 per therm from the current commodity cost of $0.23860 to $0.21817 (before revenue sensitive tax) for the upcoming PGA period of November 2017 to October 2018.

The primary driver for the 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.

**Demand Costs**

Demand costs represent the cost of pipeline transportation to the company’s local distribution system. This portion of slight decrease is due to the reduction in Northwest pipeline capacity release revenue Avista has been receiving. In this filing Avista’s estimated demand costs are projected to decrease by $0.01934 per therm from the current demand cost of $0.12678 to $0.10744 (before revenue sensitive tax) for the upcoming PGA period of November 2017 to October 2018. The primary driver for the prospective demand reduction is due to new transportation rates for Williams Northwest Pipeline effective both on January1 and October 1, 2018.

The following chart shows the residential customer commodity and demand charges for the natural gas LDC’s regulated by this commission.[[2]](#footnote-2)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **WACOG** | **Avista** | **Puget Sound Energy** | **NW Natural** | **Cascade Natural Gas** |
| Commodity | 0.21817 | $0.24068 | $0.25856 | $0.27336 |
| Demand (firm) | 0.10744 | $0.12683 | $0.11626 | $0.16731 |
| **Total** | **0.32561** | **$0.36751** | **$0.37482** | **$0.44067** |

**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. This year’s proposed deferred balance amortization balance is approximately $15.4 million refund. The change of this portion of filing results in an estimated overall annual decrease in refund of approximately $133,000.

**Revenue Impacts**

The total annual revenue change in Avista’s proposed filing results in a decrease of approximately $7.8 million (including revenue sensitive items) or a 5.2 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 |  ($0.04169) |  ($0.00112) | $ (5,333,483) | -4.8 % |
| Commercial | 111 |  ($0.04237) |  $0.00236 | $ (2,113,773) | -6.5 % |
| Industrial-Firm | 121 |  ($0.03302) |  $0.00310 | $ (133,987) | -5.1 % |
| Interruptible | 132 |  ($0.03382) |  ($0.09260) | $ (92,286)  | -18.0% |
| Other  |  |  |  | $ (130,571) | - 0.1% |
| **Total Change** |  |  |  | **$ ( 7,804,100)** | **-5.2%** |

**Residential Bill Impacts**

The impact of this filing on a residential customer with monthly average consumption of 65 therms is a decrease of $2.78 per month or 4. 8 percent, for a proposed bill of $54.55 versus a current bill of $57.33.

**Hedging Plan**

In the commission’s Policy and Interpretive Statement, Docket UG-132019, the commission directed each of the regulated natural gas companies to submit a preliminary hedging plan as part of its 2017 PGA filing. Avista filed its hedging plan as required and now docketed as UG-171044. This matter will be a discussed at the recessed open meeting held on November 16, 2017.

**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-170932 to become effective November 1, 2017, by operation of law.

1. The listed charges are *before* revenue sensitive items.. [↑](#footnote-ref-1)
2. Commodity and demand charges for all LDC’s are *before* revenue sensitive items for comparision purposes. [↑](#footnote-ref-2)