

Agenda Date: October 24, 2019  
Item Number: F3

**Docket:** UG-190703  
Company Name: Avista Corporation d/b/a Avista Utilities

Staff: Joanna Huang, Regulatory Analyst

### **Recommendation**

Take no action, thereby allowing the Tariff Revisions filed by Avista Corporation d/b/a Avista Utilities in Docket UG-190703, to take effect November 1, 2019, by operation of law.

### **Background**

On August 22, 2019, Avista Corporation d/b/a Avista Utilities (Avista or company) filed with the Washington Utilities and Transportation Commission (commission) its revisions to Schedule 150 – Purchased Gas Adjustment (PGA), and Schedule 155, deferred gas cost amortization in Docket UG-190703. The net effect of the proposed PGA and Deferral filings is an increase in annual gas revenue of \$14 million or approximately 10.4 percent.

<b><u>Docket</u></b>	<b><u>Description</u></b>	<b><u>Revenue Change</u></b>	<b><u>Percent of Total Revenue</u></b>
UG-190703	Forward-Looking	\$ (4,775,058)	(3.55)%
UG-190703	Amortization	<u>18,801,936</u>	<u>14.0 %</u>
Total Impact of Rate Changes		<u>\$ 14,026,878</u>	<u>10.4 %</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 160,000 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 2019 through October 2020. Currently, Avista's embedded Weighted Average Cost of Gas (WACOG) is \$0.27306 per therm (\$0.17067 commodity and \$0.10239 firm demand). The proposed WACOG is \$ 0.24935per therm (\$0.15284 commodity and \$0.09651

firm demand).<sup>1</sup> This portion of the filing results in an estimated overall annual decrease in sales revenues of approximately \$4,775,058 or 3.55 percent.

### Commodity Cost

Avista uses a 30-day historical average of forward prices, ending July 31, 2019, by supply basins to develop the estimate of index purchases. Avista's forecast of future gas supply relies heavily from AECO basin. Avista's estimated commodity costs for the upcoming PGA period (November 2019 to October 2020) are projected to decrease by \$0.01783 per therm, from \$0.17067 to \$0.15284.

The primary driver for the continued low natural gas prices is due to high natural gas production levels, and an abundance of natural gas in storage, which results in lower wholesale natural gas prices.

### Demand Costs

Demand costs represent the cost of pipeline transportation to the company's local distribution system. In this filing Avista's estimated demand costs are projected to decrease by \$0.00588 per therm from the current demand cost of \$0.10239 to \$0.09651 (before revenue sensitive tax) for the upcoming PGA period of November 2019 to October 2020. The primary driver for the prospective demand reduction is due to the reduction of various factors including Canadian exchange rate, updated demand forecast, and changes due to federal tax reform for Gas Transmission Northwest (GTN).

The following chart shows the residential customer commodity and demand charges for the natural gas companies regulated by this commission.<sup>2</sup>

WACOG	Avista	Puget Sound Energy	NW Natural	Cascade Natural Gas
Commodity	0.15284	\$0.18135	\$0.19447	\$0.24511
Demand (firm)	0.09651	\$0.14905	\$0.10629	\$0.17463
<b>Total</b>	<b>0.24935</b>	<b>\$0.33040</b>	<b>\$0.30076</b>	<b>\$0.41974</b>

### Deferred Gas Cost

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, 2018, through June 30, 2019. This difference is amortized to customers, as a rebate or a surcharge with interest. 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 \$18.8 million. This amount is due to this year's

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<sup>1</sup> The listed charges are *before* revenue sensitive items.

<sup>2</sup> Commodity and demand charges for all LDC's are *before* revenue sensitive items for comparison purposes.

proposed deferred amortization balance of approximately \$1.1 million surcharge and last year's proposed deferred balance of \$17 million refund.

Higher actual wholesale natural gas price for the 2018-2019 winter year were caused, in part, by the Enbridge-owned West Coast Pipeline rupture in October 2018, which drove regional wholesale natural gas prices higher and created market volatility. This shortage on Enbridge's capacity critically impacted the natural gas supply across the Pacific Northwest during the 2018-2019 winter months. In addition, Jackson Prairie experienced an outage on one of its compressors, further exacerbating the capacity shortage for the region.

### Revenue and Bill Impacts

Avista's proposed filing results in an annual revenue increase of \$14,026,878, or 10.4 percent.

Customer Class	Schedule Number	Schedule 150 PGA	Schedule 155 Deferral Amortization	Total Revenue Impact	Percent Change
Residential	101/102	(\$0.02487)	\$0.10042	\$10,005,126	10.2%
Commercial	111/112	(\$0.02407)	\$0.09082	3,919,156	13.1%
Industrial-Firm	121/122	(\$0.02393)	\$0.06098	83,398	10.4%
Interruptible	131/132	(\$0.02247)		19,198	4.1%
<b>Total Change</b>				<b>\$14,026,878</b>	<b>10.4%</b>

A residential customer using 66 therms will see a bill increase of \$4.99 per month, or 10.2 percent, from \$47.78 to \$52.78. The following table shows proposed rate increases requested by each of the regulated natural gas companies in Washington:

	Avista	Cascade	PSE	NWN
Current Typical Residential Bill	47.79	\$48.06	59.60	\$48.92
Average Therms	66	55	64	57

#### Rate Adjustments:

Cost Recovery Mechanism		\$0.12	\$0.50	
Decoupling Rate Adj.	\$2.07	\$2.19		
Energy Efficiency Rider		\$(0.07)		\$ 0.47
Low Income Adj.		\$(0.01)		\$(0.06)
Purchased Gas Adj.	\$4.99	\$2.97	\$7.91	\$ 2.20
Adj. for EDIT Tax		\$(0.03)		\$ 0.00
Adj. for Over Collection Tax		\$0.47		
Sum of All Adjustments	\$7.06	\$5.64	\$8.46	\$ 2.61
% Change in Customer Bills	14.8%	11.7%	14.19%	5.3%

### **Customer Comments**

On September 30, the company notified its customers by mail of the proposed PGA, BPA credit, and decoupling filings. Customers were advised that they may access relevant documents about the proposed rate revisions on the commission's website, and that they may contact Andrew Roberts at (888) 333-9882 or [andrew.roberts@utc.wa.gov](mailto:andrew.roberts@utc.wa.gov) with questions or concerns. Commission staff (staff) received 11 consumer comments opposed to the proposed rate increase.

Customers feel the requested rates are excessive and that the company raises its rates too often. Multiple customers expressed concern about the impact the proposed rate increase would have on low and fixed income customers. Other commenters expressed concern about high bills and poor management through high executive pay and international trips. One consumer opposed the idea of decoupling company revenues from usage.

Staff informed customers that natural gas utilities do not profit on the actual cost of natural gas. Customers were also informed of the impacts the Enbridge Pipeline incident had on natural gas costs and supply over the winter of 2019. Customers were also told that commission staff performs a thorough review of rate filings to ensure all rates and fees are appropriate.

### **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-190703 to become effective November 1, 2019, by operation of law.