

Agenda Date: October 19, 2018
Item Number: A1

Docket: UG-180700
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-180700, to take effect November 1, 2018, by operation of law.

Background

On August 17, 2018, Avista Corporation (Avista or company) filed revisions to its Purchased Gas Adjustment (PGA) and deferred gas cost amortization tariffs in Docket UG-180700. The net effect of the proposed PGA and Deferral filings is a decrease in annual gas revenue of \$116,707 or approximately 0.1 percent.

<u>Docket</u>	<u>Description</u>	<u>Revenue Change</u>	<u>Percent of Total Revenue</u>
UG-180700	Forward-Looking	\$ 174,893	0.12 %
UG-180700	Amortization	<u>(291,600)</u>	<u>(0.21) %</u>
Total Impact of Rate Changes		<u>\$ (116,707)</u>	<u>(0.10) %</u>

The impact of Purchased Gas Adjustment (PGA) and deferred gas cost amortization on a residential customer with monthly average consumption of 65 therms is an increase of \$0.03 per month or 0.05 percent, for a proposed bill of \$51.24 versus a current bill of \$51.21¹.

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 for over-collection or a surcharge for under-collection reflected in Schedule 155.

Avista, a combined electric and gas utility, serves approximately 160,000 gas customers in Eastern Washington.

¹ The \$51.21 is the current monthly bill, which includes the DSM rate that became effective September 1, 2018 in Docket UG-180491 and LIRAP rate that became effective October 1, 2018 in Docket UG-180654. At the time the Company made the filing, August 17, 2018, the average monthly bill for a typical residential customer using 65 therms was \$50.66.

Discussion

Purchased Gas Adjustment

Avista's Schedule 150 reflects the projected costs of purchased gas for the coming PGA year, which covers November 2018 through October 2019. Currently, Avista's embedded Weighted Average Cost of Gas (WACOG) is \$0.27180 per therm (\$0.16436 commodity and \$0.10744 firm demand). The proposed WACOG is \$ 0.27306 per therm (\$0.17067 commodity and \$0.10239 firm demand).² This portion of the filing results in an estimated overall annual increase in sales revenues of approximately \$174,893 or 0.12 percent.

On December 22, 2017, in Docket UG-171206, Avista filed an "Out of Cycle" PGA filing. The company re-established in its estimated commodity cost of natural gas in Schedule 150 for the period January 1, 2018, through October 31, 2018. The net effect of this "Out of Cycle" PGA filing in Docket UG-171206 is a decrease in annual gas revenue of \$7.3 million or approximately 7.1 percent. As a result, the rate change in the current filing in this Docket is minimal.

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, 2017, through June 30, 2018. 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 \$291,600. This amount is so minimal due to the prospective portion of gas cost that has been re-established from January 1, 2018, through October 31, 2018, in Docket UG-171206.

Commodity Cost

Avista uses a 30-day historical average of forward prices, ending July 31, 2018, by supply basins to develop the estimate of index purchases. The record shows that Avista's forecast of future gas supply relies heavily from Aeco basin. Avista's estimated commodity costs are projected to increase by \$0.00631 per therm from the current commodity cost of \$0.16436 to \$0.17067 for the upcoming PGA period of November 2018 to October 2019.

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 \$0.00505 per therm from the current demand cost of \$0.10744 to \$0.10239 (before revenue sensitive tax) for the upcoming PGA period of November 2018 to October 2019. The primary driver for the prospective demand reduction is due to the pricing of Canadian pipeline costs in U.S. dollars rather than Canadian dollars.

² The listed charges are *before* revenue sensitive items.

The following chart shows the residential customer commodity and demand charges for the natural gas LDC's regulated by this commission.³

WACOG	Avista	Puget Sound Energy	NW Natural	Cascade Natural Gas
Commodity	0.17067	\$0.18055	\$0.21379	\$0.24240
Demand (firm)	0.10239	\$0.13125	\$0.10643	\$0.17501
Total	0.27306	\$0.31180	\$0.32022	\$0.41741

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 amortization balance is approximately \$16.9 million refund. The change of this portion of filing results in an estimated overall annual increase in refund of \$291,600.

Revenue Impacts

The total annual revenue change in Avista's proposed filing results in a decrease of \$116,707 (including revenue sensitive items) or a 0.1 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	101/102	\$0.00149	\$(0.00109)	\$50,611	0.1%
Commercial	111/112	\$0.00020	\$(0.00162)	\$(98,065)	(0.3)%
Industrial-Firm	121/122	\$(0.00589)	\$(0.00040)	\$(46,562)	(2.0)%
Interruptible ⁴	131/132	\$0.00364		\$(22,691)	(5.0)%
Total Change				\$(116,707)	(0.1)%

³ Commodity and demand charges for all LDC's are *before* revenue sensitive items for comparison purposes.

⁴ Customers on rate Schedules 112, 122 and 132 receive one-time refunds for their portion of the deferral. Therefore, there is no per term rate impact for these groups of customers if refund occurs.

Combined Effects of All Filings

	Avista	Cascade	PSE	NWN
Current Typical Residential Bill	\$51.21	\$51.69	\$65.18	\$52.73
Average Therms	65	54	64	57
Rate Adjustments:				
Cost Recovery Mechanism		\$0.46	\$0.32	
Decoupling Rate Adj.	\$(5.40)	\$(1.32)		
Energy Efficiency Rider		\$0.75		\$0.22
Low Income Adj.				\$0.01
Purchased Gas Adj.	\$0.03	\$(3.91)	\$(6.34)	\$(4.00)
Reorganization Benefits				\$(0.05)
Adj. for Tax Effects		\$(0.05)		
Sum of All Adjustments	\$(5.37)	\$(4.07)	\$(6.02)	\$(3.81)
% Change in Customer Bills	-10.5%	-7.9%	-9.2%	-7.2%

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 2018 PGA filing. Avista filed its hedging plan in Docket UG-180734.

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-180700 to become effective November 1, 2018, by operation of law.