



UG-220309

Avista Corp.

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April 29, 2022

Ms. Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, Washington 98503

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State Of WASH.
UTIL. AND TRANSP.
COMMISSION

**RE: WN U-29 Natural Gas Service
Avista's "Out of Cycle" Purchased Gas Cost Adjustment (PGA)**

Enclosed for electronic filing with the Commission is a copy of the following proposed tariff sheet:

Twenty-Fifth Revision Sheet 150 canceling Twenty- Fourth Revision Sheet 150

This filing reflects the Company's proposed "Out of Cycle" Purchased Gas Cost Adjustment (PGA). The revised tariff sheet included in the Company's filing reflects an update to the Commodity WACOG for the Company's Purchased Gas Cost Adjustment ("PGA"). If approved, the Company's annual revenue will increase by approximately \$23.0 million or approximately 12.6%. The proposed changes have no effect on the Company's earnings. Below is a table summarizing the proposed change by rate schedule:

<u>Service Schedule</u>	<u>Sch. No.</u>	<u>Commodity Change per therm</u>	<u>Demand Change per therm</u>	<u>Total Sch. 150 Change</u>	<u>Sch. 155 Amort. per therm</u>	<u>Total PGA Rate Change per therm</u>
General	101	\$ 0.11644	\$ -	\$ 0.11644	\$ -	\$ 0.11644
Fixed income	102	\$ 0.11644	\$ -	\$ 0.11644	\$ -	\$ 0.11644
Large General	111	\$ 0.11644	\$ -	\$ 0.11644	\$ -	\$ 0.11644
Large General	112	\$ 0.11644	\$ -	\$ 0.11644	\$ -	\$ 0.11644
Interruptible	131	\$ 0.11644	\$ -	\$ 0.11644	\$ -	\$ 0.11644
Interruptible	132	\$ 0.11644	\$ -	\$ 0.11644	\$ -	\$ 0.11644

Commodity Costs

In Docket UG-210672, the Commission approved the Company's annual PGA with a November 1, 2021 effective date. In that filing, the Company's commodity weighted average cost of gas ("Commodity WACOG") increased by \$0.06436 per therm, from \$0.16914 per therm to \$0.23350 per therm (including revenue sensitive costs). Since that time, the price of wholesale natural gas has continued to rise, with prices reaching levels not seen in over 13 years. The market factors attributing to the rise in prices are an overall increase in demand, lower supply, and more recently the impact that the global natural gas market is having on the US natural gas market due to the war in Ukraine. The increase in demand for natural gas has been due to elevated liquified natural gas (LNG) exports, which have been running at or near capacity throughout the winter, and use for electric generation remaining elevated. Historically, when natural gas prices reach high levels, there is a reduction in demand for its use in power generation, however, with the two main alternative fuels (coal and oil) also being priced at extremely high levels, this has not occurred. On the supply side, production has been slow to ramp up to pre-pandemic levels and production has underperformed expectations in 2022. The increased demand and lack of supply has also led to storage balances being well below historical levels. Although the US natural gas market is not directly connected to the European market except through LNG exports, which as mentioned are already operating at capacity, there is likely some risk premium being priced into the US market based on the expectation that world energy prices will remain elevated. Some of these market conditions were present when the Company made its filing in 2021, and when coupled with the additional market factors increasing demand for natural gas, there has been significant upward pressure on wholesale natural gas prices, thus creating a material change from the WACOG approved in the Company's prior PGA. Avista is proposing a rate adjustment that more closely aligns the actual cost of what Avista is paying for natural gas with what is included in customer rates in this filing.

As a result of the changes in pricing in the wholesale markets, the Company proposes to increase the Commodity WACOG from the \$0.23350 per therm embedded in current rates to \$0.34994 per therm, representing an increase of \$0.11644 per therm. Making this filing now results in limiting the surcharge deferral for the remainder of the PGA year and allows the Company to re-evaluate the estimated commodity WACOG based on updated market prices when we make our annual full PGA filing in the 3rd Quarter of 2022.

The Company calculated the proposed Commodity WACOG of \$0.34994 per therm by adjusting just two items. First, as done in the annual 2021 PGA filing, the Company used a 60-day historical average of AECO forward prices (as of April 12, 2022) to develop an estimated cost associated with index purchases for the one-year period beginning after the effective date. The estimated monthly volumes to be purchased during this period are multiplied by the 60-day average forward price for the corresponding month. The annual weighted average price for these volumes is \$3.90 per dekatherm (\$0.390 per therm). The annual weighted average price presently included in rates for these volumes is \$2.55 per dekatherm (\$0.255 per therm).

Second, the Company entered into additional natural gas hedges after it filed its annual PGA. The weighted average price for hedged natural gas presently included in rates is \$1.88 per dekatherm

(\$0.188 per therm). The annual weighted average price for all hedges during the period, including those entered into after the annual PGA filing, is now \$2.91 per dekatherm (0.291 per therm).

Updating the 60-day historical average of forward wholesale natural gas prices, and reflecting all hedges entered into to date for the period, results in a proposed \$23.0 million annual revenue increase.

Demand Costs and Schedule 155-Amortization Rate

The Company is not requesting any changes related to demand charges or Schedule 155 (Amortization Rate) in this filing. Any changes to those items will occur in the Company's next annual PGA filing.

As noted in our most recent Monthly PGA report filed under Docket UG-210672, the current deferral balance that will drive the calculation of the amortization rate was a surcharge balance of \$15.7 million as of March 31, 2022 (inclusive of the current commodity and demand costs deferral and the residual amortizing deferral balance). There are several factors that will impact this balance before our normal full PGA filing occurs this Summer, including customer usage and actual demand costs, but the most significant is the difference between the commodity WACOG in current rates and the actual cost Avista is paying for natural gas.

Summary

The annual revenue change reflected in this filing is an increase of \$23.0 million in annual natural gas revenue, or 12.6%. The average residential or small commercial customer using 67 therms per month will see an increase of \$7.80 per month, or approximately 12.0%. The present bill for 67 therms is \$64.86 while the proposed bill is \$72.66. The proposed rate change will vary based on a customer's usage and service schedule.

Also enclosed are the workpapers supporting the proposed rate changes and a bill insert to customers regarding the proposed increase. Please note that Attachment D is Confidential it contains pricing information that is confidential. Therefore, per WAC 480-07-160, Attachment D is being provided in a confidential and redacted version.

If you have any questions regarding this filing, please call Marcus Garbarino at 509-495-2567.

Sincerely,

/s/Patrick D. Ehrbar

Patrick D. Ehrbar
Director of Regulatory Affairs

