

Agenda Date: October 29, 2009
Item Number: A5

Docket: UG-091462
Company Name: Avista Corporation

Staff: Danny Kermode, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff filings made by Avista Corporation (Avista or company) in Docket UG-091462 to take effect November 1, 2009, by operation of law.

Background

On September 14, 2009, Avista Corporation (Avista or company) filed revisions to its Purchased Gas Adjustment (PGA) and Deferral Amortization (deferral) in Docket UG-091462. The filing, if allowed to go into effect, would result in a decrease in the company's annual Washington gas revenues by \$40.6 million or 21 percent.

The PGA and deferral allows the company to recover its actual natural gas costs for customers. The company's PGA filing revises the rates in Schedule 156, reflecting the company's expected gas cost changes for the coming PGA year (November 2009 - October 2010) and the rates in Schedule 155, reflecting the amortization of the accumulated book balances of prior deferrals. The deferrals represent the difference between the prior-period estimated costs and the actual costs plus accrued interest.

Avista, a combined electric and gas utility, serves approximately 146,000 gas customers in Eastern Washington.

Discussion

Purchased Gas Cost Adjustment, Schedule No. 156

Avista's Schedule 156 rates reflect the expected cost per therm of purchased gas for the coming year. For the expected cost of gas for its residential customers, the company uses a Weighted Average Cost of Gas (WACOG) of 58.246¢ per therm¹, currently the WACOG is 89.449¢ per therm. The proposed change represents a 31.203¢ decrease in the WACOG.

The WACOG is comprised of a demand component and a commodity component. The demand component represents the costs of pipeline transportation. The company expects that the demand component for residential customers will increase slightly, by 0.095¢ per therm (from 9.274¢ to 9.369¢ per therm), for the upcoming year.

The commodity component reflects the expected cost of natural gas in the upcoming year. The company's projected commodity costs are made up of three elements: (1) hedges (one to three year contracts), (2) storage (gas inventory), and (3) monthly or daily index/spot market purchases. The company has projected that approximately 64 percent of estimated annual load

¹ 48.877¢ commodity, 9.274¢ demand

requirements for the coming PGA year will be at fixed prices through the use of hedging or current gas inventory, whereas the remaining 36 percent of the estimated load will be met through index/spot market purchases.

Index/spot market purchases are projected by using a 30-day historical average of forward prices by supply basis. The estimated monthly volumes are multiplied by the expected average price corresponding to the month and basin. The annual weighted average price for the PGA-year expected volumes, combined with the fixed hedged costs, results in a reduction of residential and small businesses commodity rates of 31.298¢ per therm, reducing the current commodity component of the WACOG from 80.175¢ to 48.877¢.

The company's revision to Schedule 156 reflects the increase in the demand component combined with the decrease in the commodity component, resulting in an overall decrease of 32.606¢ per therm for residential and small commercial users (Schedule 101). Other customer classes experience similar decreases ranging from a 32.612¢ per-therm decrease for "Large General Service" to a 32.646¢ per-therm decrease for customers served under the company's interruptible service tariff.

Gas Cost Deferral Amortization, Schedule No. 155

Schedule 155 reflects the refunding to ratepayers of the over collection of gas costs received by the company that exceeded the actual cost of gas. The proposed rates are based on a deferred refund balance of \$28.4 million amortized over a two-year period. The company proposes an adjusted refund rate for its residential and small commercial users of 8.742¢ per therm. This represents a 9.657¢ decrease from the current 18.399¢ per-therm refund amount.

The decrease reflects the effect on the refund rate of the two-year amortization period that the company has proposed. The proposed amortization period is an effort to support stabilized rates over the next two years. The rationale used by the company for a two-year amortization is to (1) mitigate the "rebound effect" experienced by customers when the refund is complete and (2) reduce the upward pressures on rates as increased gas prices are incurred, increases which are expected to take place within the next two years. Staff supports the proposed two-year amortization. Staff notes that at the end of the first-year period, any remaining credit would be used to off-set possible surcharge deferrals caused by increasing gas prices above the levels set in Purchased Gas Cost Adjustment (Schedule No. 156).

Notable in this filing is that the deferred refund balance has continued to grow to its now expected \$28.4 million amount even though the company filed two additional filings outside the annual PGA filing that increased the refund amount flowing back to its customers.² The increase in the deferred balance is attributed to the fact that, although the amortized amount of the deferred balance was updated and accelerated, the company did not file an updated projection of

² UG-090767 June 2009, UG-091462 November 2009

gas prices. The company continued to collect at the level set in the 2008 PGA filing even though gas prices continued to decrease. Staff has discussed with the company that, in any future interim filings related to the PGA, the company must file amendments to both its expected gas costs and its amortization of its accumulated book balances, consistent with WAC 480-90-233. Filing both components would help prevent future material imbalances in either the company's obligation to refund or its right to recover costs.

Revenue and Residential Bill Impacts

The combined effect of the tariff change for Schedules 155 and 156 is an overall revenue decrease in Avista's Washington natural gas revenues by \$40.6 million or 21.0 percent. A residential customer with average monthly consumption of 70 therms currently paying \$79.43 under the proposed rates would have a decrease of \$16.06 per month (20.2 percent), resulting in an average monthly bill of \$63.37.

Conclusion

Staff has reviewed Avista's expected gas costs (Schedule 156) 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-091462 to become effective November 1, 2009, by operation of law.