

Agenda Date: October 28, 2010
Item Number: A1

Docket: UG-101539
Company Name: Avista Corporation

Staff: E.J. Keating, Regulatory Analyst
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Recommendation

Take no action, thereby allowing the tariff filing made by Avista Corporation (Avista or company) in Docket UG-101539 to take effect November 1, 2010, by operation of law.

Background

On September 15, 2010, Avista Corporation (Avista or company) filed revisions to its Purchased Gas Adjustment (PGA) and Deferral Amortization (deferral) tariffs in Docket UG-101539. The proposed filing, would result in an increase of the company's annual Washington gas revenues of \$6.7 million (4.6 percent).

The PGA and deferral mechanisms allow the company to recover its actual natural gas costs from customers. The company's PGA filing revises the rates in Schedule 150, reflecting the company's expected gas cost changes for the coming PGA year. The company's deferral amortization filing revises the rates in Schedule 155, reflecting the amortization of the accumulated book balances of prior deferrals.

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

Discussion

Purchased Gas Cost Adjustment, Schedule No. 150

Avista's Schedule 150 rates reflect the expected cost per therm of purchased gas for the coming PGA- year (November 2010 through October 2011). The expected Weighted Average Cost of Gas (WACOG) for its residential customers is 55.981¢ per therm (45.849¢ commodity, 10.132¢ demand). Currently the WACOG is 58.246¢ per therm. The proposed change represents a 2.265¢ 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 0.763¢ per therm (from 9.369¢ to 10.132¢ 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)
- (3) monthly or daily index/spot market purchases

The company has projected that approximately 71 percent of estimated annual load requirements for the coming PGA-year will be at fixed prices through the use of hedging or current gas inventory, whereas the remaining 29 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 basin. 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 3.028¢ per therm, reducing the current commodity component of the WACOG from 48.877¢ to 45.849¢.

The company's revision to Schedule 150 reflects the increase in the demand component combined with the decrease in the commodity component, resulting in an overall decrease of 2.297¢ per therm for residential and small commercial users (Schedule 101). Other customer classes experience similar decreases ranging from a 2.317¢ per therm decrease for "Large General Service" to a 2.468¢ per therm decrease for customers served under the company's interruptible service tariff.

Gas Cost Deferral Amortization, Schedule No. 155

Schedule 155 reflects the per therm refund to ratepayers for gas revenue received by the company that exceeded the actual cost of gas. The deferrals represent the difference between the prior-period estimated gas costs and the actual gas costs plus accrued interest. The proposed rates are based on a deferred refund balance of \$13.5 million amortized over a one-year period. The company proposes an adjusted refund rate for its residential and small commercial users of 7.872¢ per therm. This represents a 6.6¢ decrease from the current 14.472¢ per therm refund amount.

The increase reflects the effect on the refund rate of the large one-year amortization rate from the 2009 PGA being replaced by a smaller one-year amortization rate. The 2009 PGA deferral balance of \$28.4 million has been reduced to \$13.5 million. Absent the deferral balance and all other things remaining equal, the refund rate would have dropped to \$0 resulting in a larger increase on customer bills. The effect of the remaining deferral balance has the indirect benefit of keeping the proposed rate change lower for customers. Staff supports the proposed one-year amortization rate.

Revenue and Residential Bill Impacts

The combined effect of the tariff change for Schedules 150 and 155 is an overall revenue increase in Avista's Washington natural gas revenues of \$6.7 million (4.6 percent). A residential customer with average monthly consumption of 69 therms currently paying \$60.03 under the proposed rates would have an increase of \$2.97 per month (5 percent), resulting in an average monthly bill of \$63.00.

Customer Comments

On September 15, 2010, the company notified its customers of the proposed rate increase by a news release and mailed bill inserts to customers from September 21 through October 19, 2010. The commission received two customer comments on this filing; both oppose the increase. Consumer Protection staff advised customers that they may access company documents about this rate case at www.utc.wa.gov, and that they may contact Roger Kouchi at 1-888-333-9882.

General Comments

Both customers commented on the frequent increases and the increased cost of living.

Staff Response

State law requires rates to be fair and reasonable, and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment. The customer was provided a copy of the commission fact sheet "Understanding Purchased Gas Cost Adjustments."

Conclusion

Staff has reviewed Avista's expected gas costs (Schedule 150) and deferral amortization rates (Schedule 155) proposed in the company's filing and finds them to be reasonable. Therefore, staff recommends the commission take no action, thereby allowing the tariff filing in Docket UG-101539 to become effective November 1, 2010, by operation of law.