AVISTA

Natural Gas

2016 GRC (UE-160228 & UG-160229)	*Commission Order – No discussion of cost of service*
2015 GRC (UE-150204 & UG-150205)	*Multiparty Settlement - No changes to cost of service*
2014 GRC (UE-140188 & UG-140189)	*Multiparty Settlement - No changes to cost of service*
2012 GRC (UE-120436 & UG-120437)	*Multiparty Settlement - No changes to cost of service*
2011 GRC (UE-110876 & UG-110876)	*Multiparty Settlement - No changes to cost of service*
2010 GRC (UE-100467 & UG-100468)	*Multiparty Settlement* • Underground Storage annual throughput allocation reduced from 20% to 13%.
2009 GRC (UE-090134/UG-090135)	*Multiparty Settlement - No changes to cost of service*
2008 GRC (UE-080416 & UG-080417)	*Multiparty Settlement - No changes to cost of service*
2007 GRC (UE-070804 & UG-070805)	*Multiparty Settlement*
2005 GRC (UE-050482 & UG-050483)	*Multiparty Settlement - No changes to cost of service*
2004 Gas Only GRC (UG-041515)	*Multiparty Settlement – Implements changes from separate docket* • Based on agreement in PGA

	o Underground storage allocation changed to 80% based on sales therms and 20% on annual throughput. o Transport customers excluded from GRI contribution rates o GRI contributions to be included in base rates
1999 GRC (UE-991606 & UG-991607)	*Commission Order – Cites Staff and Public Testimony that the Company's gas cost of service study as "generally consistent with prior Commission decisions."*
1997 Washington Water Power GRC (UG-971071)	*Commission Order – Avista agrees to participate in discussions concerning unbundling of natural gas and electric costs.* Avista proposes use of 1994 WNG cost allocations with some modifications: • Purchased gas costs allocated based on WACOG • Underground storage is 77.27% based on commodity and 22.73% on firm CP.
1990 Washington Water Power Rate Design Case (UG-901459)	*Commission Order – Identifies specific Cost-of-Service Methodology the company should use* *See below for more information*

1990 Precedent

The latest Commission precedent that identifies and establishes policy guidance on how natural gas cost-of-service should be performed. The order, date March 9, 1992 discusses several topics including the general purpose of cost-of-service studies.

Principles of Cost of Service:

a) Embedded cost studies are important tools for comparing the relative contributions of different customer classes to a company's overall costs;

b) Embedded cost studies should allocate some fixed costs on the basis of annual use (or throughput) in order to reflect the fact that a gas distribution system is built to deliver gas year round; that fixed costs incurred in the past do not necessarily match usage patterns in the present; and that certain shared and common costs cannot be separately attributed to the needs of specific customer groups;

c) Embedded cost studies should be only one consideration in determining rate spread and rate design; and

d) Any discounting for purposes of providing rates competitive with the price of alternative energy options should be done explicitly.

Cost of Service Study Usage:

> We also believe that nothing in today's environment changes the fact that cost of service should be only one of the elements of a Commission decision on rate spread and rate design. In addition to the cost study results, rate spread and rate design decisions may consider equity, potential rate shock, marginal cost, and other factors. However, just as a cost study should not be the sole determinant of rates, rate goals should not be used to determine what cost methodology is used. Discounting for customers with bypass or other competitive alternatives should be done explicitly rather than by reliance upon unsupportable theories of cost causation.

Transportation Rates:

> Second, the Commission rejects the company's implication that its embedded cost study should be designed to produce transportation rates competitive with other energy and supply options available to certain of its customers. Responding to competition may be an important goal for the company, but it should not be a goal of the cost-of-service study. The purpose of a cost study is to provide consistent, accurate information about a company's costs relative to the revenues provided by different customer classes. Skewing cost study parameters to obtain pre- conceived results means that the resulting cost-of-service study no longer provides useful information.
>
> The Commission agrees with the position of the company that it should, to the extent possible, make transportation service available to end-use customers without otherwise prejudicing its obligation to provide service to its core group of sales customers. The extent of its obligation does not rise to the level of "common carrier" status whereby the company would be required, under any circumstances, to provide transportation service to all who request it.10

Demand versus Throughput:

> In Cascade, we established that when a gas utility builds its distribution system to deliver gas year- round, not only at peak periods, some costs of the distribution system should be allocated on the basis of year-round use, or annual throughput. Embedded cost-of-service studies do not necessarily reflect actual costs caused by particular customers. The fixed costs of a gas distribution system contain common and joint costs that are not directly traceable to the needs of any specific customer. Furthermore, embedded cost studies allocate costs that were incurred over time on the basis of customers and services that may have changed since the costs were incurred. Nothing in today's environment suggests that the principle of allocating some fixed costs on the basis of year-round use is inapplicable.

Peak Day/Design Day:

Although the company provided engineering testimony about the design of distribution systems, this information does not lead automatically to the company's conclusions. The cost of a main does not increase proportionally as the size of the main is increased. The system was built to deliver gas daily. Cost-of-service analysis thus should reflect the fact that fixed costs are incurred for the company to deliver gas year-round, not just on a peak day.

The Commission rejects the company's proposal to allocate demand-related costs on the basis of a single peak day. A figure averaging several days for several years is more likely to avoid wide swings from year to year due to unusual weather conditions that are unlikely to occur frequently.

Other findings:

- Demand-related costs allocated using an average of five-day sustained peak in three year period.

Most Recently Presented Cost Allocation Methodology – Natural Gas

- Natural Gas Purchases – Allocated using WACOG from most recent PGA. Related expenses are classified as commodity and allocated using throughput (for scheduling and dispatch) or sales volumes
- Underground Storage – Classified as commodity; 13% allocated using annual throughput, the remaining by sales
- Distribution Facilities
    - Distribution Mains and station equipment –
        - Commodity - uses the Peak and Average Ratio (average of the 5 day sustained peak from previous 3-years divided by average daily load).
        - Demand – all remaining costs
    - Meters, services, & industrial regulations – classified as customer related costs
    - O&M – classified using related plant accounts
- Customer Services
    - Uncollectible accounts – Allocated based on revenue
    - Demand Side Management – Peak and Average Ratio
    - All other Accounts – classified as customer related
- Distribution Costs - Classified and Allocated using Modified Peak and Average Method (see below)
    - Customer related distribution costs – annual number of customers
    - Meters – Allocated using annual customer count weighted by relative current cost of each meter type
    - Service Investments – Allocated using annual number of customers weighted by relative current cost of installation
    - Industrial meters & regulators – Allocated using annual number of customers weighted by relative current cost of meters
- A&G
    - General and Intangible Plant – Company specific 4-factor

- A&G Expense
  - Plant related – Allocated using total plant in service
  - Labor related – Allocated using O&M labor expense
  - Revenue Related - Allocated using pro forma revenue
  - Other expenses – Company specific 4-factor
- Special Contracts – Treated as regular operating revenue and allocated by Total Ratebase
- Revenue Conversion
  - Uncollectible accounts, state excise tax, & commission fees – allocated by pro forma revenue
  - Income tax expense – allocated by net-income

Classification and Allocation of Distribution Main Costs

In 1997, Avista adopted the 1994 Washington Natural Gas distribution for allocating main costs. This method is described by the table below

Small Mains (<4")

	Customer Served with Small Mains	Customer Served with Large Mains	Large Interruptible/Transportation
Demand*	System Peak Demand Allocator	No Allocation	Direct assign where possible
Commodity*	Total annual throughput	No Allocation	Direct assign where possible

Large Mains (>=4")

	All Other Customers	Large Interruptible/ Transportation
Demand*	System Peak Demand Allocator	Direct assign where possible
Commodity*	Total annual throughput	Direct assign where possible

*Determined using a peak and average ratio

In 2005, Avista proposed to use the 1994 Washington Natural Gas methodology approved by the Commission in UG-940814. The case was settled and no decision was made.

In 2015, Avista proposed a further modification to the Avista Peak and Average method for allocating main costs. Avista stated the goals of the modified methodology were: 1) consistent application of cost of service principles, 2) consistent with commission precedent, 3) consistent with the Avista's physical distribution system, 4) is fair and balanced for all rate classes.[1] The

[1] Miller, UG-150205 JDM-1T 11:10-14

Avista Modified Peak and Average Method is substantially the same as the PSE Peak and Average Method.

Modified Peak and Average Method

	Demand* Related
	All Customers
All Mains	System Peak Demand Allocator

	Commodity* Related	
Main Size	All Other Customers	Large Interruptible/ Transportation
Small (<2”)	Annual weather normalized throughput	No assignment
Medium (2-3”)	33% based on all customer Annual weather normalized throughput	
	67% Annual weather normalized throughput based on all customers except large interruptible/transportation	
Large (4”)	Annual weather normalized throughput	

*Determined using a peak and average ratio based on system load factor. Defined as ratio of weather normalized throughput and peak demand.