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December 7, 2012

VIA: Electronic Mail

David Danner
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Comments of Avista Utilities - Docket No. UG-120715

Dear Mr. Danner,

On May 18, 2012, the Washington Utilities and Transportation Commission (Commission) filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to examine whether companies subject to the Commission's jurisdiction should do more to enhance the safety of their natural gas distribution systems and, if so, to develop appropriate requirements or incentives to accomplish that goal. The Commission issued a notice and is seeking written comments from interested persons on issues related to enhancing pipeline safety. The Commission received comments from interested parties and conducted workshops on June 21, 2012, and July 1, 2012.

On November 28, 2012, the Commission issued a "Notice of Opportunity to File Written Comments" on the Commission Staff's Policy Statement in this matter. In particular, the "Statement of Commission Policy" section of the draft Policy Statement.

The Company appreciates the opportunity to provide comments on the draft Statement of Commission Policy. The Company's response is provided below:

Company Pipeline Replacement Plan: Avista supports the Commission requirements of a pipeline replacement program plan and believes that the Company's "Proposed Protocol for Managing Select Aldyl A Pipe in Avista Utilities' Natural Gas System" report is in compliance with these requirements. Regarding an isolated steel program, Avista's removal effort is not specifically 'risk-assessment' based, but is the result of a programmatic agreement between the UTC safety staff and the Company.

Cost Recovery: Under the proposal, cost recovery occurs on a prospective basis for cumulative investments from November 1 through October 31st. There is no cost recovery for costs incurred during the twelve-month period that investments are being made. For example, an investment made in November 2012 has a rate of return and depreciation expense revenue requirement for the months of December 2012 through October 2013 that is not recovered under this proposal. Revenue requirement recovery does not occur until November 1, 2013. Hence, eleven months of revenue requirement is lost for investments made in November 2012, ten months of revenue requirement is lost for investments made in December 2012, nine months of revenue requirement is lost for investments made in January 2013, and, so on. Hence, the proposed cost recovery mechanism has built-in regulatory lag, which results in "lost" cost recovery. One way to solve the lost cost recovery, regulatory lag problem, is to allow for deferred accounting for investments that are in service prior to the annual rate increase that occurs on November 1. But, the proposed policy specifically does not provide for the deferral of such costs, even though the investments are used and useful prior to November 1. The Purchased Gas Adjustment (PGA) mechanism is a deferred accounting mechanism. The difference between actual and authorized purchased gas costs are deferred for later recovery or rebate. Deferred accounting should similarly be allowed for costs related to qualified pipeline replacement investments until the costs associated with the investments are recovered in rates.

Reporting Requirements and Timing of Reports: The Company will be able to report actual investment information on or before the 15th of the month following the month that investment is transferred to plant in service. Assuming the Company files on September 1, for Purchased Gas Adjustment (PGA) rates to be effective November 1, actual investment information would be available for the months of November through July, with projected investment information being used for the months of August, September, and October. The proposed rate adjustment to be effective November 1 could be updated on or about October 15 to reflect actual investment information for the months of August and September.

Statements on Customer Bills: There are constraints on the amount of information that can be shown on customer bills and whether or not specific amounts billed for specific items can be shown separately. This issue is further complicated when pro-rations occur during the first two months following a rate change.

Avista appreciates the opportunity to submit these comments, if you have any questions regarding this information, please contact Linda Gervais at 509-495-4975 or by email at linda.gervais@avistacorp.com.

Sincerely,

Kelly Norwood
Vice President, State & Federal Regulation
Avista Utilities