Office of the Secretary
Service Date
March 21, 2002

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR APPROVAL TO CHANGE ITS NATURAL GAS TARIFFS TO INCLUDE DEFERRED GAS COST ASSESSMENTS.	**CASE NO. AVU-G-02-1** **ORDER NO. 28985**

On January 17, 2002, Avista Utilities (Avista) petitioned for Commission approval to change its natural gas tariffs to include deferred gas cost assessments. Avista supplies natural gas to approximately 55,000 customers in northern Idaho. Avista asserted that if its Petition is approved as filed, existing rates and annual Company revenues would not change. Petition at 1. In Order No. 28949, the Commission ordered that this case be processed under Modified Procedure and established a February 26, 2002 comment deadline. After reviewing the comments and record in this case, the Commission approves the Application and the addition of Staff's proposed language to be effective March 1, 2002 as set out in greater detail below.

BACKGROUND

In its petition, Avista explains that there is currently a significant cost/price incentive for qualifying sales customers to change to transportation service with the recent decline in market natural gas services. *Id.* at 2. To switch between sales and transportation service, customers must have a minimum annual usage of 250,000 therms and provide 90 days prior notice. Two Idaho customers have recently provided notice to change to transportation service and six additional sales customers could potentially make the same change. *Id.*

Avista's present gas sales rates include an amortization charge of 11.8 cents per therm, which was approved by Commission Order No. 28827 in the Company's last PGA filing. The amortization rate was designed to recover the balance of deferred gas costs over a 2.5-year period. Avista estimates the deferred gas costs to be collected from these eight customers during this period to be approximately $1 million. *Id.* If these qualifying sales customers are allowed to switch to transportation without paying their share of these deferred costs, the rates of remaining sales customers could be significantly impacted.

AVISTA'S PROPOSED CHANGES TO GAS TARIFF LANGUAGE

If approved as filed, the proposed Tariff Schedule 146B changes will allow for an appropriate assessment of deferred gas costs for natural gas customers who switch from a sales service schedule to transportation service. *Id.* Avista proposes to calculate deferred gas costs for customers who switch to transportation by multiplying the difference between what they paid for gas (included in tariff rates) and the Company's actual gas costs by their actual usage for each month of the deferral period. *Id*. The deferral period begins with the month of July 1999, which is the first month of the deferral period from the Company's last PGA filing, and ends with the most current month. The Petition states that this calculation would capture the customer's share of the present deferral balance based on their usage. *Id.* Avista proposes to transfer these costs with the customer's account through revised Schedule 146B. The customer could then choose to pay this amount by: 1) a lump-sum refund or surcharge to eliminate the deferred gas cost balance, or 2) an amortization rate per therm to reduce the deferred gas cost balance prospectively. *Id.*

The Company's present tariff schedules address the reverse situation – when transportation customers choose to switch back to sales service. *Id.* at 3. Tariff Schedules 112, 122 and 132 are available to previous transportation customers and the rates do not include the present amortization rate applied to other sales customers. These tariffs were created when gas prices were falling so a transportation customer could not receive a deferred cost refund by switching back to sales service. Although these tariffs were not intended for use by previous sales customers, these tariffs do not currently contain language prohibiting their use. Avista proposed to change this situation by adding restrictive language to Tariff Schedules 112, 122 and 132.

Avista currently has no customers served by Schedules 112 and 122, and only two customers served under Schedule 132. *Id.* The Petition states that the deferred gas costs (surcharges or refunds) for these two customers have been determined on an individual basis and approved by the Commission in prior PGA filings. *Id.* Avista's proposed tariff revisions for these schedules add the following language to make it clear that only prior transportation customers may be served under those schedules in the future: "Customers beginning to take service under the Schedule on and after March 1, 2002 must have been previously served under Schedule 146 – Transportation Service for Customer-Owned Gas." *Id.*

The proposed language changes to Tariff Schedules 131A and 132A remove the application of Tariff Schedule 149. Tariff Schedule 149 is no longer applicable and will be removed or the rate set to zero in the next PGA filing. *Id.*

COMMENTS

A. Commission Staff Comments

Other than Avista, Staff was the only party to file comments in this case. In short, Staff recommended approval of the Company's proposed tariff changes and identified two issues for further consideration. Staff Comments at 5. First, Staff noted that the proposed tariffs do not address deferral balances if a customer chooses to leave Avista's system altogether. *Id.* at 2. Second, customers who switch to transportation from sales tariffs would have to wait up to one full year before knowing with certainty the dollar amount they will be obligated to pay for additional deferred, but as yet unapproved, costs. *Id.* at 3.

1. <u>Customers Who Leave the System</u>

Although Avista's proposed changes address Commission-approved deferral balances (Schedule 155) created when a customer switches to the transportation tariff (Schedule 146), no provisions currently exist to allow billing for deferral balances if large customers choose to leave Avista's system altogether. Staff recommended that language be inserted in Tariff Schedules 111 and 112 – Large General Service, Schedules 121 and 122 – High Annual Load Factor Large General Service, and Schedules 131 and 132 – Interruptible Service, that requires large customers (over 250,000 therms) to payback their share of deferral balances if they choose to either leave Avista's system or switch to a transportation tariff. *Id.* Noting that this additional language would provide customers notice of this financial obligation at the time they begin service, Staff argued this additional language would also eliminate the customer's ability to simply switch fuels to avoid deferrals they have accrued. *Id.*

2. <u>Ongoing Deferral Balances</u>

Staff further recommended that the Company be allowed to bill or credit customers for deferral balances created between the time the last PGA deferral was approved and the time the customer chooses to leave the Company's system or switch to the transportation tariff. *Id.* Debit or credit balances should be subject to a true-up upon completion of the next deferral audit and decision.

Id. To this end, Staff recommended the following language be added to Avista's tariff Schedules 111, 112, 121, 122, 131, and 132:

> For customers with annual usage greater than 250,000 therms, the prorated share of deferred gas costs will be determined for individual customers served under this Schedule who request to discontinue service or switch to a transportation sales schedule. The deferred gas cost balance for each Customer will be based on the difference between the purchased gas costs collected through rates and the Company's actual purchase gas cost multiplied by the Customer's therm usage each month. The deferred gas cost balance for Customers who switch from this schedule will be transferred with the customer's account. The Customer shall have the option of 1) a lump-sum refund or surcharge to eliminate the deferred gas cost balance, or 2) an amortization rate per therm for a term equal to the deferral recovery period to reduce the deferred gas cost balance prospectively provided the Customer has not discontinued service. The Customer's share of deferred gas costs incurred since the last Purchase Gas Cost Adjustment is subject to a true-up for any modifications made by the Commission in the next Purchase Gas Cost Adjustment. If the amount billed is different than the Commission-approved amount, Avista will bill or refund the Customer the difference between their share of the approved amount and the amount previously billed to the Customer.

Id. at 4.

Staff stated this language would improve the Company's ability to collect deferral balances, reduce the likelihood of stranded costs, and provide adequate notice to customers who create the deferral balances. *Id.* Staff also noted that this language should improve the Company's ability to collect stranded costs with no greater collection risk than the Company-proposed changes. *Id.*

Although this language limits deferral recovery to the Company's largest customers, Staff recognized that there are many other customers who could also avoid deferral recovery payments through reduced consumption or disconnection. *Id.* at 4-5. However, Staff noted that the limited ability of smaller customers to economically bypass the gas company coupled with the administrative burden of tracking such a large group of customers justifies the limited application. *Id.* at 5. Staff further stated that the eight (8) largest customers have the greatest potential for stranded costs that would significantly impact the remaining customer base. *Id.*

B. Avista's Reply Comments

In its Reply Comments, Avista responded to Staff's proposal to assess or refund deferred gas costs for large customers "who request to discontinue service." (Staff's proposed language in quotes.) While Avista generally considers "discontinue service" to mean disconnection of service, the Company indicated that Staff intends a broader interpretation if its purpose is to "eliminate the customers' ability to simply switch fuels to avoid deferrals they have accrued." Reply Comments at 1 (quoting Staff Comments at 3). Based on this language, Avista stated that it is unsure at what point the customer has "discontinued service." *Id.* For instance, would a customer switching to an alternate fuel actually have to disconnect their gas service? What if a customer only partially reduced their gas usage by supplementing with an alternate fuel or just reduced their consumption for a couple of months? Avista also indicated that it may not be aware of the customer's reduced gas usage until after the fact since customers using an alternative fuel typically would not request the Company to "discontinue service." *Id.* at 2.

While stating that Staff's intent is reasonable, Avista argued that it is too ambiguous to put into practice and thus requested that it not be approved by the Commission. *Id.*

COMMISSION FINDINGS

The Commission has reviewed and considered Avista's Application in Case No. AVU-G-02-1. The Commission has also considered Staff's analysis and recommendation in this matter, Staff's proposed changes and modifications, and the Company's reply comments. The Commission continues to find that the issues presented are suitable for processing under Modified Procedure, i.e., by written submission rather than by hearing. IDAPA 31.01.01.204.

A. The Application

In considering the filings of record, the Commission finds Avista's Application and proposed tariff language changes to be reasonable. This matter is basically one of fairness; those customers who created deferred gas costs should be responsible for paying them even though they later choose to change tariff schedules or discontinue service. It would be inequitable to shift a customer's proportional share of deferred costs to the remainder of the class. Because Avista's proposed changes to Tariff Schedules 112, 122, 131A, 132, 132A, 146A, and 146B will hold customers who created deferred costs to pay their proportional share, the Commission finds the adoption of these changes to be appropriate. Moreover, our decision is consistent with the language currently in Intermountain Gas' GS-1 and LV-1 Rate Schedules. Intermountain Gas' GS-1 Rate Schedule states that:

> Any GS-1 customer who leaves the GS-1 service will pay to Intermountain Gas Company, upon exiting the GS-1 service, all gas and transportation related costs incurred to serve the customer during the GS-1 service period not borne by the

> customer during the time the customer was using GS-1 service. Any GS-1 customer who leaves the GS-1 service will have refunded to them, upon exiting the FS-1 service, any excess gas commodity or transportation payment made by the customer during the time they were a GS-1 customer.

Implementation of Avista's requested changes will ensure that Idaho gas customers who switch rate schedules will be treated in a uniform manner.

B. Additional Language Proposed by Staff

The Commission has also reviewed the additional tariff language put forward by Staff and Avista's reply comments that oppose Staff's language. Staff recommended that language be inserted in Tariff Schedules 111 and 112 – Large General Service, Schedules 121 and 122 – High Annual Load Factor Large General Service, and Schedules 131 and 132 – Interruptible Service, that requires large customers (over 250,000 therms) to payback their share of deferral balances if they choose to either leave Avista's system or switch to a transportation tariff. Staff argued that this additional language would not only notify customers of this financial obligation, it would eliminate the customer's ability to simply switch fuels to avoid accrued deferrals. *Id.* at 3. Avista stated in its reply comments that it is unsure at what point the customer has "discontinued service" under Staff's proposed language. Reply Comments at 1. Because the language is "too ambiguous to put into practice," Avista requests that it not be approved. *Id* at 2.

We find that the additional language proposed by Staff appropriately addresses the problem of customers who intentionally attempt to avoid payment of deferred gas costs. Although the Commission is not sure that Staff intended the term "discontinued service" to encompass situations where disconnection has not occurred, we find Avista's concerns about ambiguity to have merit. Therefore, the Commission adopts Staff's proposed language with the following changes:

> For customers with annual usage greater than 250,000 therms, the prorated share of deferred gas costs will be determined for individual customers served under this Schedule who ~~request to discontinue~~ disconnect service or switch to a transportation sales schedule. The deferred gas cost balance for each Customer will be based on the difference between the purchased gas costs collected through rates and the Company's actual purchase gas cost multiplied by the Customer's therm usage each month. The deferred gas cost balance for Customers who switch from this schedule will be transferred with the customer's account. The Customer shall have the option of 1) a lump-sum refund or surcharge to eliminate the deferred gas cost balance, or 2) an amortization rate per therm for a term equal to the deferral recovery period to reduce the deferred gas cost balance prospectively provided the Customer has not discontinued service. The

> Customer's share of deferred gas costs incurred since the last Purchase Gas Cost Adjustment is subject to a true-up for any modifications made by the Commission in the next Purchase Gas Cost Adjustment. If the amount billed is different than the Commission-approved amount, Avista will bill or refund the Customer the difference between their share of the approved amount and the amount previously billed to the Customer.

The Commission expects that Avista will review the unique circumstances of the eight customers who may potentially "disconnect service" on a case-by-case basis. The purpose of the "disconnect service" language is to close a loophole where customers seek to bypass payment of gas cost deferrals. This will include customers who not only switch tariffs, but also those who go out of business or switch entirely to an alternate fuel. The Commission is aware that customers may alter their seasonal usage or supplement their natural gas consumption with alternate fuels in part to avoid deferred gas costs. However, the Commission does not want to discourage customers from participating in demand-side management programs or prudently limiting gas consumption in a downward business cycle for fear they will be billed for additional deferred gas costs. This finding promotes uniform treatment of deferred gas costs as it is consistent with Intermountain Gas' tariff language. It also eliminates much of the ambiguity cited by Avista in its comments. However, if Avista finds itself in a situation where application of this language is unclear, we encourage the Company to ask the Commission for guidance.

For these reasons, we find it appropriate to approve Avista's Application and the related tariffs as modified above. We further find the requested March 1, 2002, effective date to be reasonable.

CONCLUSION OF LAW

The Idaho Public Utilities Commission has jurisdiction over this matter and Avista Utilities, a natural gas utility, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

O R D E R

IT IS HEREBY ORDERED that the Application of Avista Utilities for Commission approval to change its natural gas tariffs to include deferred gas cost assessments be approved effective March 1, 2002.

IT IS FURTHER ORDERED that Avista incorporate Staff's additional language as described above into Tariff Schedules 111 and 112 – Large General Service, Schedules 121 and 122 – High Annual Load Factor Large General Service, and Schedules 131 and 132 – Interruptible Service and submit revised tariff sheets to the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* **?** 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this 21st day of March 2002.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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