BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO CHANGE ITS RATES AND CHARGES (2013 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-13-01** **ORDER NO. 32898**

On July 31, 2013, Avista Corporation dba Avista Utilities ("Company" or "Avista") filed its annual Purchased Gas Cost Adjustment ("PGA") Application asking to increase its annualized revenues by about $4.9 million (7.5%). Application at 1. The Company says its proposal will not affect its earnings and will increase the average, residential or small commercial customer's rates by $3.80 per month (6.8%). *Id.* at 4. The Company proposes that the new rates take effect October 1, 2013. *Id.* at 4-5.

On August 13, 2013, the Commission issued a Notice of Application and Notice of Modified Procedure soliciting public input on the Application and setting a September 11, 2013 comment deadline. Order No. 32874. The Commission also held a public workshop on September 5, 2013 in Coeur d'Alene, Idaho. Commission Staff and three members of the public filed timely written comments, and the Company did not reply.

Having reviewed the record, the Commission issues this Order granting the Company's Application as discussed below.

THE APPLICATION

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. Application at 2.[1] The Company buys natural gas and then transports it through pipelines for delivery to customers. *Id.* at 2. It defers the effect of timing differences due to implementation of rate changes and differences between the Company's actual weighted average cost of gas (WACOG) purchased and the WACOG embedded in rates. *Id.* The Company also defers various pipeline refunds or charges and miscellaneous revenue received from natural gas related transactions, including pipeline capacity releases. *Id.*

[1] The Company also generates, transmits, and distributes electricity in northern Idaho and eastern Washington. *Id.*

The PGA mechanism is used to adjust rates to reflect annual changes in the Company's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs. With this PGA filing, the Company proposes to: (1) pass to customers any change in the estimated cost of natural gas for the next 13 months (Schedule 150); and (2) revise the amortization rates to refund or collect the balance of deferred gas costs (Schedule 155). *Id.* at 2, 4. The Company's PGA filing would impact customers as follows:

Service	Schedule No.	Commodity Change per Therm	Demand Change per Therm	Total Sch. 150 Change	Amortization Change per Therm	Total Rate Change per Therm	**Overall Percent Change**
General	101	$0.04066	$0.00471	$0.04537	$0.01800	$0.06337	**6.8%**
Lg. General	111	$0.04066	$0.00471	$0.04537	$0.01800	$0.06337	**9.7%**
Interruptible	131	$0.04066	$0.00000	$0.04066	$0.00621	$0.04687	**8.3%**

Avista estimates that the commodity cost (i.e., the WACOG) will increase by $0.041 per therm, from the currently approved $0.333 per therm to $0.374 per therm. *Id.* at 3.

Avista says it periodically hedged gas throughout 2013 for the coming PGA year (13 months), and that it will hedge about 38% of its estimated annual load requirements for the PGA year (October 2013 – October 2014) at a fixed price comprised of: (1) 12% of volumes hedged for a term of one-year or less; and (2) 26% of volumes from prior multi-year hedges. *Id.* Through June, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.452 per therm. *Id.* Avista says underground storage capacity represents about 19% of its annual load requirements, with the estimated weighted average cost for all storage volumes being $0.325 per therm. *Id.*

Avista says lower overall demand, increased production, and record high storage impacted the 2012 natural gas market and drove natural gas prices to 10-year lows. But these prices trended upward for most of 2013. According to the Company, the late, colder than normal winter increased demand, reduced excess supply, and decreased storage balances to levels below the five-year average. The Company explains that this return to a more balanced market added to the uplift of natural gas prices and increased the WACOG components (hedges, index, and storage) for the upcoming PGA year above the prior year and what is currently included in rates. *Id.* at 4-5.

Avista's demand costs primarily represent the cost to transport gas through interstate pipelines to the Company's distribution system. The Company proposes increasing demand costs principally to account for the inclusion of the new Northwest Pipeline transportation rates. *Id.* at 5.

Avista proposes *increasing* the amortization rate by $0.01800 per therm (from $0.01785 per therm in the rebate direction to $0.00015 per therm in the surcharge direction). This increase is the result of fully amortizing the $1.6 million rebate deferral balance approved in the 2012 PGA (the Company says the amortization balance actually was over-amortized by about $0.1 million). The Company says this surcharge balance was mostly offset by current 2012-2013 deferrals, resulting in a deferral balance, in the surcharge direction, of about $12,000. *Id.*

Avista asserts that it has notified customers of its proposed tariffs by posting notice at each of its Idaho district offices and issuing a press release. Further, the Company says it will send notice to each customer in a bill insert before the changes take effect. *Id.* at 2.

THE COMMENTS

Three public commenters opposing the increase argue that the Company should not receive a rate increase because there is abundant oil and gas in the country and the requested increase will be hard on persons living on a fixed income. Further, the Company should advocate for its customers by lobbying Washington to not shut down coal plants and other energy sources.

The Commission Staff recognizes that rate increases can be difficult for customers on a fixed income, but Staff supports the Company's Application because proposed adjustments to Schedules 150 and 155 reasonably capture the Company's fixed (demand) and variable (commodity) costs.

The Schedule 150 part of the PGA consists of the Company's commodity costs (the weighted average cost of gas or "WACOG") and demand costs (the cost to transport gas to the Company's distribution system). Staff reviewed the Company's Schedule 150 proposal and found the Company's hedges to be prudent and its approach to estimating forward prices and demand costs to be reasonable. Staff thus recommended the Commission accept the Company's proposal to increase the WACOG by $0.041 per therm (from the current WACOG of $0.333 per therm to $0.37350 per therm) and proposed demand costs of $0.10798 per therm.

With regard to the Schedule 155 part of the PGA, which is the amortization of the Company's deferral account, Staff explains that the current year's deferral activity consists of the difference in the price the Company paid for natural gas and the WACOG established in the prior PGA, interest charges on the deferred amount, and capacity releases to benefit customers. In this case, the Company paid more for gas than what was estimated in the prior WACOG. Accordingly, the Company proposes to increase the Schedule 155 amortization rate by $0.01800 per therm (from a $0.01785 credit to a $0.00015 per therm surcharge). Staff recommended the Commission approve the Company's proposal, which will enable the Company to recover an $11,837 deferral balance over the next 12 months.

Lastly, Staff recommended the Commission tell customers about potential financial assistance opportunities, such as the Low Income Energy Assistance Program (LIHEAP) and Project Share.

DISCUSSION AND FINDINGS

The Commission has reviewed the case record, including the Application and comments. The Company is a public utility, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502. The Commission must establish just, reasonable, and sufficient rates for utilities subject to its jurisdiction. *Idaho Code* § 61-502. The PGA mechanism is used to adjust rates to reflect changes in the Company's costs for the purchase of natural gas from suppliers – including transportation, storage and other related costs. The Company's earnings are not to be increased from changes in prices and revenues resulting from the PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

Based on our review of the record, we find it reasonable to approve the Company's proposed Schedule 150, including the proposed WACOG of $0.37750 per therm. The Company's proposed WACOG was compared to other forecasts and is consistent with the forecasted northwest regional cost of natural gas. We also find it reasonable to approve a $0.00015 per therm amortization rate for the proposed Schedule 155 deferral balances. The proposed changes shall take effect on October 1, 2013.

We direct the Company to promptly file an application amending its WACOG should gas prices materially deviate from the WACOG approved in this Order.

We appreciate the public comments received in this case. We understand that many customers struggle to pay utility bills, and we remind these customers they may qualify for financial assistance. Information regarding the federally-funded Low Income Energy Assistance Program (LIHEAP) and local non-profit and other fuel funds such as Project Share in Avista's northern Idaho service territory, can be obtained by calling the nearest Community Action Agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

ORDER

IT IS HEREBY ORDERED that the Company's PGA Application is approved. The Company shall establish a WACOG of $0.37350 per therm, and increase the Schedule 155 amortization rate for deferral balances rate by $0.01800 per therm (from a $0.01785 credit to a $0.00015 per therm surcharge). The Company is directed to file conforming tariffs to be effective for service rendered on and after October 1, 2013.

IT IS FURTHER ORDERED that Avista promptly file an application to amend its WACOG should gas prices materially deviate from the WACOG approved in this Order.

IT IS FURTHER ORDERED that Avista continue to file quarterly WACOG projections and monthly deferred cost reports with the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by 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 25th day of September 2013.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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