DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **KARL KLEIN**
DEPUTY ATTORNEY GENERAL

DATE: **AUGUST 7, 2013**

SUBJECT: **AVISTA'S 2013 ANNUAL PGA FILING, CASE NO. AVU-G-13-01**

On July 31, 2013, Avista Corporation dba Avista Utilities 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.[1] The Company says its proposal will not affect its earnings and will increase the average, residential or small commercial customers' rates by $3.80 per month (6.8%). *Id.* at 4. The Company asks that its Application be processed by Modified Procedure, and that the new rates take effect October 1, 2013. *Id.* at 4-5.

THE APPLICATION

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. *Id.* at 2.[2] The Company buys natural gas and then transports it through pipelines for delivery to customers. *Id.* at 2. The Company 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.* In its annual 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

[1] 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.

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

the amortization rates to refund or collect the balance of deferred gas costs (Schedule 155). *Id.* at 2, 4.

The Company's present 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%**

1. <u>Commodity Costs</u>. 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 $.374 per therm. *Id.* at 3.

2. <u>Hedging</u>. 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.

3. <u>Demand Costs</u>. 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.

4. Amortization Rate Change. Avista proposes *increasing* the amortization rate by \$0.01800 per therm (from \$0.01785 per therm in the rebate direction to \$0.03775 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.*

5. Customer Notice. 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.

STAFF RECOMMENDATION

Staff recommends that the case be processed through Modified Procedure, with comments due by September 11, 2013.

COMMISSION DECISION

Does the Commission wish to process this case through Modified Procedure, with comments due by September 11, 2013?

Karl Klein
Deputy Attorney General

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