Office of the Secretary
Service Date
October 27, 2017

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES FOR AN ORDER APPROVING A CHANGE IN NATURAL GAS RATES AND CHARGES	)))))	**CASE NO. AVU-G-17-04** **ORDER NO. 33923**

On August 31, 2017, Avista Corporation dba Avista Utilities applied to the Commission for an Order authorizing Avista to decrease its Purchased Gas Cost Adjustment (PGA) rates. The PGA is a Commission-approved mechanism that adjusts rates up or down each year to reflect changes in Avista's costs to buy natural gas from suppliers. The potential changes in costs include changes in transportation, storage, and other related costs. Avista defers these costs into its PGA account, and then passes them on to customers through an increase or decrease in rates.

If approved, Avista's Application would *decrease* the average residential or small commercial customer's rates by $1.23 per month (about 2.4%). Application at 4. The proposed decrease would reduce Avista's annual revenue by about $1.7 million but would not affect Avista's earnings. *See Id.* at 1; Transmittal Letter accompanying Application (August 31, 2017). Avista asks that the Commission process the Application by Modified Procedure and that the new rates take effect November 1, 2017. Application at 5.

The Commission issued an Order providing Notice of Application and Notice of Modified Procedure and setting deadlines for interested persons to file written comments. Order No. 33886. Staff timely filed comments. No other comments were received.

Having considered the record, the Commission now issues this Order approving the Application and the proposed Tariff Schedules 150 and 155, effective November 1, 2017. The Commission's decision is more fully set forth below.

THE APPLICATION

Avista is a public utility that distributes natural gas in portions of northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. Application at 2. Avista buys natural gas and then transports it through pipelines for delivery to customers. Avista's rates for natural gas service in Idaho include a base rate component and a gas-related cost component. The base rate component is intended to cover Avista's fixed costs to serve its Idaho customers –

for example, the Company's costs for equipment and facilities to provide service. The current base rates were approved in Order No. 33437, Case No. AVU-G-15-01. Separately from this Application, the Company has applied to this Commission for an Order allowing Avista to increase its base rates for natural gas service. *See* Case No. AVU-G-17-01.

The gas-related cost component of Avista's rates is at issue here. In this PGA Application, Avista proposed to: (1) pass any change in the estimated cost of natural gas for the next 12 months to customers (through Tariff Schedule 150); and (2) revise the amortization rates to refund or collect the balance of deferred gas costs (through Tariff Schedule 155). Application at 2-3. The Company summarized the effect of the revised rates (that is, the change from current rates) as follows:

Service	Schedule No.	Commodity Change per therm	Demand Change per therm	Total Schedule 150 Change	Amortization Change per therm	Total Rate Change per therm	**Overall Percent Change**
General	101	$(0.02167)	$(0.00831)	$(0.02998)	$0.00982	$(0.02016)	**-2.5%**
Lg. General	111	$(0.02167)	$(0.00831)	$(0.02998)	$0.00982	$(0.02016)	**-3.8%**

Id. at 3.

The Tariff Schedule 150 portion of the PGA has two parts: the commodity costs and the demand costs. Avista's commodity costs are the variable costs at which Avista must buy natural gas. The weighted average cost of gas (WACOG) is an estimate of those costs. Here, Avista estimated its commodity costs will *decrease* by $0.022 per therm, from the currently approved $0.241 per therm to $0.219 per therm. *Id.* Avista stated that the overall reduction is generally the result of continued high natural gas production levels and an abundance of natural gas in storage. *Id.* Avista estimated the cost of purchases using a 30-day historical average of forward prices for each supply basin and has a diversified natural gas procurement strategy that includes hedging. *Id.*

Avista's demand costs reflect the cost of pipeline transportation to the Company's system and fixed costs associated with natural gas storage. *Id.* at 4. In this Application, Avista proposed a $0.00831 per therm decrease in the overall demand rate. *Id.* The proposed demand rate is $0.10558. *Id.* Exhibit A. The proposed decrease is primarily due to new transportation rates for Williams Northwest Pipeline effective on January 1, 2018 and October 1, 2018. *Id.* at 4.

Tariff Schedule 155 reflects the amortization of Avista's deferral account. This schedule applies to general and large general service customers (residential and certain commercial customers). *Id.* at 3-4. Other commercial customers (those taking service under Tariff Schedule 112), and High Annual Load Factor Large – Interruptible Service customers under Tariff Schedule 132 do not participate in the amortization, but receive a one-time rebate or surcharge. *Id.* at 4 and n.1. With this Application, Avista proposed to decrease the amortization rate in Tariff Schedule 155 by $0.00982 per therm. *Id.* at 4. The existing rate is $0.09844 per therm in the rebate direction; the proposed rate is $0.08862 in the rebate direction. *Id.* Avista explained that it replaced most of the present rebate "due, in part, to a combination of lower actual natural gas prices versus the embedded WACOG, as well as through optimization efforts (both storage as well as fixed transportation contract)[.]" *Id.*

Avista stated it will notify customers of its proposed tariffs by posting notice at each of its Idaho district offices, and through a press release. *Id.* at 2. Also, Avista stated it will send notice to each customer in bill inserts in the September-October timeframe. *Id.*

As part of its Application, the Company filed its proposed rate schedules and tariff sheets, and its workpapers, pipeline tariffs, customer notice, press release, and bill inserts. *See* Application, Exhibits A through E.

STAFF COMMENTS

Staff reviewed the Application and supporting documents and "support[ed] the Company's proposal to reduce natural gas revenues in Idaho by approximately $1.7 million." Staff Comments at 2. Staff reviewed Avista's gas purchases, fixed price hedges, pipeline transportation and storage costs, and estimates of future commodity prices. *Id.* Staff audited Avista's deferral balances to assess the reasonableness of the proposed changes and reviewed Avista's jurisdictional allocations and Lost and Unaccounted for (LAUF) gas volumes.[1] *Id.* at 3. Based on its review, Staff recommended the Commission approve the Application and proposed tariffs as filed. *Id.*

Staff summarized the changes to Tariff Schedules 150 and 155. *Id.* at 3-4. Staff also summarized the changes to the WACOG. Specifically, Staff reviewed gas market fundamentals and prices and believes that Avista's weighted average cost of its current hedges, and estimated

[1] LAUF gas is the difference between the amount of natural gas delivered to the Company's distribution system at the city gate and amount of natural gas ultimately recorded at the customers' meters.

cost of forward-looking index purchases, are reasonable. *Id.* at 6. Staff recommended the Commission accept Avista's proposed WACOG of $0.219 per therm and recommended that Avista return to the Commission with a new filing if prices materially deviate from the proposed rates during the upcoming year. *Id.* Staff also summarized Avista's risk management practices, including Avista's procurement strategies and sales of surplus capacity (referred to as capacity release). Staff also reviewed Avista's LAUF gas volume, which Staff believed to be reasonable. *Id.* at 6-7.

Finally, Staff believed that Avista's press release and customer notice for this Application comply with Rule 125 of the Commission's Rules of Procedure, IDAPA 31.01.01.125. *Id.* at 7. Staff indicated that as of October 19, 2017, no customer comments had been received. *Id.*

In sum, Staff recommended the Commission approve Avista's proposed Tariff Schedule 150, including the proposed WACOG of $0.219 per therm, and Tariff Schedule 155, including the proposed amortization rate of $0.08862 per therm. *Id.*

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-502 and 61-503. The Commission has the express statutory authority to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential discriminatory, or in violation of any provision of law, and may fix the same by Order. *Idaho Code* §§ 61-502 and 61-503. The Commission has reviewed the record, including the Application and comments.

Based on that review, we find that the Application is reasonable and that Avista's proposed Tariff Schedules 150 and 155 accurately capture Avista's fixed and variable costs in light of forecasted gas purchases, and properly amortize Avista's deferral balance from the prior year. We thus find it fair, just and reasonable to approve Avista's Application and its proposed Tariff Schedules 150 (including the WACOG of $0.219 per therm) and 155 as filed, effective November 1, 2017. As always, we expect Avista to promptly apply to amend its WACOG if gas prices materially deviate from the WACOG approved in this Order.

O R D E R

IT IS HEREBY ORDERED that the Company's Application for an Order approving a change in natural gas rates and charges is approved. The Company's WACOG of $0.219 per therm, included in Tariff Schedule 150, is approved. The Company's proposed Tariff Schedules 150 and 155 are approved as filed, effective November 1, 2017.

IT IS HEREBY ORDERED that Avista shall promptly apply to amend its WACOG if gas prices materially deviate from the WACOG approved in this Order.

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 with regard to any matter decided in 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 27th day of October 2017.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Kristine Raper

KRISTINE RAPER, COMMISSIONER

Eric Anderson

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian

Diane M. Hanian
Commission Secretary

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