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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** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 28949 on February 5, 2002, submits the following comments.

Avista Utilities (Avista) filed a Petition on January 17, 2002 for Commission approval to change its natural gas tariffs to include deferred gas cost assessments. The Company's proposed tariff changes primarily address stranded costs created when qualifying customers choose to switch to the Company's transportation tariffs from sales tariffs. Current tariffs only address the reverse situation: customers that switch from the transportation tariff to sales tariffs. The proposed changes affect Avista's eight (8) largest sales customers out of the Company's approximately 55,000 natural gas customers in northern Idaho. The Company proposes no change in rates with this filing.

BACKGROUND

In the winter of 2000-2001, Avista Utilities incurred over $22 million (Idaho) in deferred gas costs due to unprecedented market prices. In August 2001, the Commission authorized Avista to recover the deferral in Order No. 28827. The Commission increased Schedule 155 (deferral recovery) rates through 2003, which delayed the Company's cost recovery but reduced the immediate impact on customers.

When combined, Schedule 155 and the weighted average cost of gas (WACOG) set customers gas costs at $.59840 /therm. Increased production, drilling, and other market factors meanwhile reduced the current and anticipated price of gas to approximately $0.20/therm. The price disparity between the market price and the rates charged to customers creates an incentive for qualifying customers to switch to market suppliers. The existing tariffs allow customers with annual usage greater than 250,000 therms to switch to Avista's Transportation Schedule 146 and purchase market gas directly from a third party.

The tariffs that currently allow customers to switch to the transportation tariff do not require them to continue paying their share of the deferral. If these large customers are allowed to leave the system without paying their share of the deferral, this unrecovered deferral amount will be shifted to the remaining customers on the system for recovery. Avista has recognized this fact and filed proposed tariff changes to address the situation.

ANALYSIS

The Company's proposed tariff changes appear to resolve the stranded cost problem and restrict customers from avoiding payment of approved deferral balances when the customer transfers to transportation tariff Schedule 146. However, Staff believes there are two additional tariff issues that should be addressed with this filing. First, the proposed tariffs do not address deferral balances if a customer chooses to leave Avista's system altogether. Second, customers that 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.

Customers that Leave the System

Avista's proposed changes only address Commission-approved deferral balances (Schedule 155) created when a customer switches to the transportation tariff (Schedule 146).

However, if large customers choose to leave Avista's system altogether, no provisions currently exist to allow billing for deferral balances.

Staff believes it is appropriate to add sales tariff language that requires large customers (over 250,000 therms) to pay their proportional share of the deferral if and when that customer chooses to discontinue service under a sales tariff schedule. This additional language would provide customers notice of this financial obligation at the time they begin service. It would also eliminate the customers' ability to simply switch fuels to avoid deferrals they have accrued. Therefore, Staff recommends that language be inserted in tariff Schedules 111 & 112 – Large General Service, Schedules 121 & 122 – High Annual Load Factor Large General Service, and Schedules 131 & 132 – Interruptible Service, that requires customers to payback their share of deferral balances if they chose to either leave Avista's system or switch to a transportation tariff.

Ongoing Deferral Balances

Avista regularly debits or credits the deferral balance for gas sales to customers due to the effect of the Purchase Gas Cost Adjustment (PGA) Mechanism and the weighted average cost of gas on rates. The deferral balance can grow or shrink significantly in any month depending on the gas price in rates and the market purchase price for customers' gas. Currently Avista has no authority to charge or credit customers for deferral balances that accrue between PGA cases; thus it could not charge or credit customers until the next year's PGA was approved. Staff believes this creates two problems. First, if a balance exists in the deferral account, customers that leave the system would avoid their share of that balance (assuming the balance is approved for recovery or refund by the Commission). Second, customers need to know the extent of the financial costs of changing tariffs in order to make a cost-effective decision.

Staff recommends that the Company be allowed to bill or credit customers for deferral balances created between the time the PGA deferral disposition was last approved and the time the customer chooses to leave the Company's system or switch to the transportation tariff. Since deferral amounts would be subject to Commission review and approval, Staff also recommends that customer debit or credit balances be subject to a true-up upon completion of the Commission's next deferral audit and decision.

Staff Proposed Language

Similar to the language proposed by the Company in the transportation tariff, Staff proposes that the following language be added to tariff Schedules 111 & 112 – Large General Service, Schedules 121 & 122 – High Annual Load Factor Large General Service, and Schedules 131 & 132 – Interruptible Service, to address cost recovery for large customers that leave the system and recovery of ongoing deferral balances:

> 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.

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

Although this language limits deferral recovery to the Company's largest customers, Staff recognizes that there are many other customers that could also avoid deferral recovery payments through reduced consumption or disconnection. However, Staff believes 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. Staff further believes that the eight (8) largest customers have the greatest potential for stranded costs that would significantly impact the remaining customer base.

Other Company-Proposed Changes

The Company also proposes to add clarifying language to several tariffs. This language would specify the appropriate tariff schedule for customers who switch to firm service rates from the transportation tariff. It would also eliminate references to tariffs no longer in effect. The additional language should assist customers and avoid further confusion. Staff recommends approval of the additional clarifying language.

STAFF RECOMMENDATIONS

1) Staff recommends approval of the Company's proposed tariff changes.
2) Staff also recommends that language be inserted in tariff Schedules 111 & 112 – Large General Service, Schedules 121 & 122 – High Annual Load Factor Large General Service, and Schedules 131 & 132 – Interruptible Service that requires large customers to payback their deferral balances if they chose to either leave Avista's Service or switch to a transportation tariff.
3) Staff further recommends 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. Debit or credit balances should be subject to a true-up upon completion of the next deferral audit and decision. To this end, Staff recommends the following language be added to Avista's tariff Schedules 111, 112, 121, 122, 131, and 132:

   <u>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</u>

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.

Respectively submitted this ______ day of February 2002.

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Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Michael Fuss
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