Office of the Secretary
Service Date
October 30, 2002

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO DECREASE ITS RATES FOR SERVICE.	))))))	**CASE NO. AVU-G-02-2** **ORDER NO. 29142**

On September 16, 2002, Avista Corporation filed a Purchased Gas Cost Adjustment (PGA) Application with the Commission for authority to place new rate schedules into effect on November 1, 2002. The proposed rates would decrease the Company's annualized revenues by approximately $10 million. If its Application is approved, Avista stated that customer gas rates would decrease on average by 15.5%. According to Avista, the proposed price reduction primarily reflects decreases in the cost of gas purchased for customer use and would not affect its earnings. Avista supplies natural gas to approximately 56,000 customers in northern Idaho. On September 27, 2002, the Commission issued a Notice of Application, Modified Procedure and Comment Deadline. Comments were filed by the Commission Staff and two customers. After reviewing the comments and record in this case, the Commission grants the Application as amended below.

THE APPLICATION

Avista requested this rate reduction to true-up the differences between Avista's actual weighted average cost of gas (WACOG) and the WACOG embedded in rates that has been deferred since September 1999. The Company also deferred the revenue received from Cascade Natural Gas for the release of storage capacity at the Jackson Prairie Storage Facility, various pipeline refunds or charges, and miscellaneous revenue received from gas-related transactions. To incorporate these deferred costs and credits into rates, Avista proposed modifying two rate schedules that will adjust the WACOG and the deferral surcharge.

First, the Company advocated reducing the prospective natural gas cost component (the WACOG) included in customer rates via Rate Schedule 150 by $0.14727 per therm to $0.33098. This reduction resulted from netting the WACOG reduction of $0.14946 per them against the demand-related increase of $0.00219 per therm.

Second, Avista sought to recover the previous timing differences accumulated in the gas cost deferral account over the 12-month period of November 2002 through October 2003 with a surcharge. When the last PGA filing was approved on August 20, 2001, the gas deferral account totaled approximately $22.3 million and was to be collected over a two-and-a-half year period. Avista estimated the remaining balance to be $8.7 million as of June 30, 2002 and expects it to be fully recovered by November 2003. The Company proposed increasing Schedule 155's amortization rates to recover this amount. If approved, firm sales gas customers on Rate Schedules 101, 111, and 121 (General, Large General and Commercial) would experience a $0.0079 per therm increase and interruptible sales customers on Rate Schedule 131 would experience a $0.01098 per therm increase.

Avista proposed that the large transportation and interruptible customers be given the option of receiving/paying their portion of the deferred gas costs either through a lump sum credit/charge or through an amortization rate as set forth in the Company's tariffs. If these customers chose the lump sum method, Avista proposed adjusting these billings' credits/charges by the amount of interest that accumulated from the end of the test period used in this filing to the date of actual settlement. The Company stated that this proposal would clear out the small residual balances related to interest charges that are carried forward between PGA filings for large customers.

If the Application is approved, Avista stated that the Company's estimated annual natural gas revenue would decrease by approximately $10,030,000 (15.5%). Avista estimated that the average residential customer using 75 therms per month would see their monthly bill decrease by approximately $10.45 (14.8%). Larger commercial customers would experience an average decrease between 16.4% and 17.3%, with the higher decrease percentages due to lower base rates. Incorporating its proposed changes to Rate Schedules 150 and 155, Avista recommended the following annualized change in rates per customer class effective November 1, 2002:

COMPANY PROPOSED RATES

Customer Class	Schedule	Proposed Average Decrease $/Therm	Estimated Average Decrease % Change	Proposed Average Price $/Therm
General	101	$0.13937	14.8%	$0.75816
Large General	111	$0.13937	16.4%	$0.7089
Commercial	121	$0.13937	17.3%	$0.6654
Large General	112	$0.14727	21.2%	$0.5484
Interruptible	131	$0.13848	19.1%	$0.58661
Interruptible	132	$0.14946	25.3%	$0.44127
Transportation	146	none	none	$0.10574

STAFF COMMENTS

While performing an audit of Avista's gas purchases from April 2001 through June 2002, Staff reviewed the Application and additional information supplied by the Company and third parties. Avista requested recovery of approximately $8.7 million that accrued through June 2002 and modification of the WACOG it collects from customers. Staff verified that the $8.7 million sought and itemized the deferred account as follows:

Staff Table 1

Deferred Account Item	Amount Accrued Through June 2002
Beginning Deferred Costs Balance	$23,629,349
Wholesale Gas Costs Below WACOG	(3,649,005)
Surcharges to Customers and Interest Collected on Surcharge	(8,829,073)
Clark Capacity Releases	(108,230)
Cascade Natural Capacity Releases	(209,280)
Benchmark Capacity Releases	(2,216,588)
Off-System Sales	(16,755)
Interest on Deferrals	459,101
Guaranteed Payments from Avista Energy	(41,183)
Northwest Pipeline Refund	(335,165)
Refunds to Industrial Customers	(395)
Total Amount Owed by Customers as of June 2002	$8,682,775

Staff stated that these two Avista requests would require changes to the Company's tariff components Schedule 150 and Schedule 155.

Schedule 150 – Purchase Cost Adjustment. Staff described the purchase gas cost adjustment as a forward-looking cost adjustment that reflects anticipated changes in the variable cost to purchase and transport gas. As a result of significant gas price decreases during the past PGA year and a forecast of continued lower prices for next year, the Company proposed to decrease the WACOG by 31% from $0.480 per therm to $0.331 per therm. Staff anticipated that variable transportation costs would remain nearly the same as last year and should have little effect on next year's rates.

The calculation of next year's WACOG depends on the forward price of gas weighted for the volume of gas used throughout the year. Historically, Idaho's share of gas costs are allocated based on Idaho's consumed portion of the total gas purchased by the Company. In this case, Staff stated that the Company inadvertently used **peak demand** rather than "volume consumed" to calculate Idaho's share of total Company gas purchase costs. Staff indicated that both Staff and the Company agree the historical methodology which allocates costs based on consumption is most appropriate because gas costs are incurred as a result of volumetric consumption. Therefore, Staff recommended the calculation proposed by the Company be modified because volumetric allocation is more equitable, it more accurately reflects expected gas costs, and it maintains the gas purchased cost allocation used in all prior PGA filings.

Staff also recognized that approval of this adjustment would slightly increase next year's WACOG over that proposed by the Company in its original Application. Specifically, the WACOG would be $0.346 per therm rather than $0.331 per therm.

Schedule 155 – Deferred Expenses. Avista uses Schedule 155 to pass through any over- or under-collections of accrued gas costs since the last tracker adjustment. Staff recommended that the Commission allow Avista to recover the $11 million relating to hedges that accrued in the deferral account through June 2002. Staff encouraged the Company to continue looking for ways to provide price stability and reduce gas costs for customers. Staff also noted that the Company's efforts to balance these goals should be thoroughly documented to facilitate future audits.

Staff stated that the Company was generally able to secure gas at a price that was lower than the Commission-authorized WACOG from April 2001 through June 2002. That allowed the Company to credit customers with the difference and pay down the deferral account faster than previously forecasted. The deferred costs also included credits for capacity releases, off-system sales, a refund from Northwest Pipeline, interest charges and credits, and other items listed in Staff's deferred account table above. After reducing the $11 million attributable to hedges by these credits and refunds, only $8.7 million remained as of June 2002.

In the last PGA case, Avista recommended an extended deferral recovery period of approximately two-and-a-half years. Because Avista's cost of gas was below the WACOG, the deferral account decreased faster than originally anticipated. Consequently, the Company recommended a slight increase in the surcharge to allow a one-year recovery rather than recovery over 18 months. Staff favored the one-year recovery, but was concerned that the Company-recommended surcharge was calculated on the June 30, 2002 balance. By calculating the surcharge on that date, Staff argued that the Company did not recognize that customers have been paying the surcharge and a higher-than-actual WACOG for the months of July 2002 through October 2002. Based on actual costs for July and August and Avista's projections for September and October, Staff estimated that Avista recovered an additional $1.2 million.

In light of this timing difference, Staff recommended that the Commission amend Schedule 155 tariff and reduce the proposed surcharge rate by including additional deferral recovery through October. By including the amounts already collected, the surcharge rate would be reduced to $.11018 per therm. Although Staff did not audit the Company's July 2002 through October 2002 amounts, Staff indicated it would do so in the next PGA filing. Any cost recovery for those months that differ from the amounts included in this case would be adjusted in next year's PGA tracker.

Effect of Staff Recommendations on Customer Rates. By maintaining the historical allocation methodology used to calculate Schedule 150 and adding the additional deferred costs already recovered to Schedule 155, Staff recommended a slightly larger rate decrease of 15.64% than the 15.5% proposed by the Company. Staff's recommended customer prices are listed below:

STAFF PROPOSED RATES

Customer Class	Schedule	Proposed Average Decrease $/Therm	Estimated Average Decrease % Change	Proposed Average Price $/Therm
General	101	$0.1403	14.90%	$0.7572
Large General	111	$0.1403	16.54%	$0.7079
Large General	112	$0.1325	19.05%	$0.5632
Commercial	121	$0.1403	17.43%	$0.6645
Interruptible	131	$0.1531	21.11%	$0.5720
Transportation	146	none	none	$0.1057

Large Customers. In addition to Schedule 150 and 155 adjustments for the general body of ratepayers, Staff noted that the Company is working directly with its large gas customers on the deferral collection. Many of these customers have switched from tariffed gas commodity service to transportation-only service. Avista provided each large customer with an accounting of its portion of the deferral and a lump sum or deferral payment plan in the Company's 2001 PGA filing. The majority of the large customers have now paid their share of the deferral and many could receive an individual true-up refund as a part of this filing. Staff monitored the large customer deferral payment activity and found that the resulting deferral collection benefited Avista's large customers and protected the general body of ratepayers.

Customer Issues. Since the Application was received, the Commission received two written comments asking the Commission to lower gas rates. The Consumer Assistance Staff did not receive any calls concerning the proposed reduction in rates.

During the year that Avista's last gas increase was in effect until its Application was filed on September 1, 2002, the Consumer Assistance Staff received six complaints concerning the rate increase that resulted in higher bills with no change in consumption. Two of the complaints mentioned that rates remained high while the wholesale cost of natural gas was dropping. Staff anticipated the pending rate decrease would help alleviate customers' concerns over the cost of natural gas and how that affected their monthly bills.

DISCUSSION AND FINDINGS

A. The WACOG

The Commission is required to establish "just and reasonable" rates. *Idaho Code* § 61-502. Wholesale natural gas prices have fluctuated dramatically over the past few years, resulting in higher natural gas costs for gas utilities nationally and in Idaho. As a result of the increased commodity prices that Avista paid its suppliers in 2000 and 2001, the Commission approved a substantial rate increase. Needless to say, we are relieved that Avista customers will finally experience significant rate relief. The primary issue raised by the Company's Application is not whether rates should be decreased, but by how much.

After reviewing the utility's Application and the comments, we adopt the Staff's WACOG adjustment using "volume consumed" rather than peak demand. We further find it is reasonable to use a one-year recovery deferral period as recommended by Staff as of October 2002. Staff may true-up the Company's July 2002 through October 2002 deferrals in the next PGA filing.

For the foregoing reasons, we find it reasonable to reduce the WACOG from $0.480 to $0.34572 per therm. When combined with the adjustments, surcharges and credits, rates per therm will decrease on average by 15.64%. The following table indicates the annualized change in rates per customer class:

APPROVED RATES

Customer Class	Schedule	Approved Average Decrease $/Therm	Average Decrease % Change	Approved Average Price $/Therm
General	101	$0.1403	14.90%	$0.7572
Large General	111	$0.1403	16.54%	$0.7079
Large General	112	$0.1325	19.05%	$0.5632
Commercial	121	$0.1403	17.43%	$0.6645
Interruptible	131	$0.1531	21.11%	$0.5720
Transportation	146	none	none	$0.1057

The rate decrease approved in this Order shall become effective on November 1, 2002. The Commission orders Avista to adjust its billing and file new tariffs prior to implementing the new rate. *Idaho Code* § 61-618.

ORDER

IT IS HEREBY ORDERED that Avista's Application is granted as amended above. The Company shall file tariffs in conformance with a WACOG of $0.34572 per therm to be effective November 1, 2002. For meters read after November 1, 2002, usage will be prorated back to November 1, 2002.

IT IS FURTHER ORDERED that Avista pass through its proposed permanent adjustments and temporary surcharges and credits to customers as proposed by the Staff.

IT IS FURTHER ORDERED that Avista continue to file updated WACOG projections quarterly.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. AVU-G-02-2 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 or in interlocutory Orders previously issued in this Case No. AVU-G-02-2. For purposes of filing a petition for reconsideration, this order shall become effective as of the service date. *Idaho Code* § 61-626. 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 30th day of October 2002.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean Jewell
Commission Secretary

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