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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR AUTHORITY TO DECREASE ITS RATES FOR NATURAL GAS SERVICE.	)	**CASE NO. AVU-G-02-2** **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, Notice of Modified Procedure and Notice of Comment Deadline issued on September 27, 2002, submits the following comments.

On September 16, 2002, Avista Utilities filed a Purchased Gas Cost Adjustment (PGA) Application with the Commission for authority to place new rate schedules into effect on November 1, 2002 that will decrease its annualized revenues by approximately $10 million. If its Application is approved, Avista stated that customer rates would decrease on average by 15.5%. The average rate decreases and average prices proposed by the Company are listed below:

Customer Class	Schedule	Proposed Average Decrease $/Therm	Estimated Average Decrease % Change	Proposed Average Price $/Therm
General	101	$0.1394	14.80%	$0.7582
Large General	111	$0.1394	16.40%	$0.7089
Large General	112	$0.1325	19.05%	$0.5632
Commercial	121	$0.1394	17.30%	$0.6654
Interruptible	131	$0.1385	19.10%	$0.5866
Transportation	146	none	none	$0.1057

STAFF ANALYSIS

Staff has reviewed the Application, performed an audit of the gas purchases from April 2001 through June 2002, and reviewed additional information supplied by the Company and third parties. Avista requested recovery of approximately $8.7 million that has accrued through June 2002. The $8.7 million consists of the following:

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

In addition to collecting the $8.7 million listed above, the Company proposed changing the weighted average cost of gas (WACOG)[1] it collects from customers. These two requests would require changes to the Company's tariff components Schedule 150 and Schedule 155.

[1] The WACOG (Weighted Average Cost of Gas) is the amount included in the tariff to reimburse the Company for the gas purchased. This amount is reviewed and adjusted as necessary during each PGA review.

AVISTA FIRM NATURAL GAS TARIFF COMPONENTS

Avista's firm service rates as described in Schedules 101 – General Service, 111 – Large General Service, and 121 – High Annual Load Factor Large General Service are subject to four adjustments that affect the actual rate customers pay. These four adjustments are described in Schedules 150 – Purchase Gas Cost Adjustment, 155 – Gas Rate Adjustment, 158 – Tax Adjustment, and 191 – Energy Efficiency Rider.

The underlying fixed tariff rate for customers is the rate established in the last rate case, and includes the cost of gas, overhead, operations, transportation, other fixed costs and the allowed rate of return. Schedule 150 – Purchase Gas Cost Adjustment (also known as Permanent Gas Cost Changes) is a forward-looking cost adjustment that reflects anticipated changes in the variable cost to purchase and transport gas. Schedule 155 – Gas Rate Adjustment (also known as the Temporary Adjustment) is a true-up for over- or under-collected gas costs. Schedule 158 – Tax Adjustment is a rate adjustment that adds the local franchise fee taxes to customer rates and is adjusted as the franchise fees are changed. Schedule 191 – Energy Efficiency Rider Adjustment is used to fund authorized Demand Side Management programs. The sum of the tariff rate plus or minus (+/-) the Permanent Gas Cost Changes plus or minus (+/-) the Temporary Adjustment plus (+) the Tax Adjustment and the Energy Efficiency Rider Adjustment comprise the total rate the customers pay per therm each month.

SCHEDULE 150 – PURCHASE GAS COST ADJUSTMENT

The purchase gas cost adjustment is 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 proposes to decrease the WACOG by 31% from $0.480 per therm to $0.331 per therm. Variable transportation costs are anticipated to 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 were allocated based on Idaho's consumed portion of the total gas purchased by the Company. In this case, the Company inadvertently used **peak demand** rather than volume consumed to calculate Idaho's share of total Company gas purchase costs. Both Staff and the Company agree the historical methodology that allocates costs based on consumption is most appropriate because gas costs are incurred as a result of volumetric consumption.

Staff recommends that 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 recognizes that with the adjustment, the WACOG for next year will be slightly higher than 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. Avista proposed a slight increase to Schedule 155 from $0.11796 to $0.12586 per therm. This rate is projected to recover the $8.7 million that was owed to the Company as of June 2002. In considering the Company's proposal, Staff believes there are three major items in the deferred gas costs relating to Schedule 155 that need to be addressed: the cost of hedges purchased for price stability, gas costs deferred during this PGA period, and gas costs deferred during previous PGA periods.

Hedges Purchased for Price Stability

As a reaction to its exposure to potentially high spot market prices during the winter of 2000-2001, Avista took measures to increase price stability for customers. The Company acted to lock-in prices to shield customers from additional market price increases. The expected continuation of the high prices did not materialize and the initial instruments turned out to be more expensive than the actual spot market prices. While some of the costs associated with hedges extend into this PGA filing, Staff reviewed the prudency of these purchases in the last PGA process and continues to maintain that these purchases were reasonable given the information available at the time.

The Company has refined its price stabilization measures and is moving forward with its new hedge purchase plan. The current plan calls for ongoing systematic purchases of financial transactions to fix a portion of the price of gas for customers. Staff has reviewed the refined plan and believes that it is a reasonable approach to provide price stability.

Staff recommends that the Commission allow Avista to recover the $11 million relating to hedges that has accrued in the deferral account through June 2002. Staff encourages the

Company to continue looking for ways to provide price stability and reduce gas costs for customers. The Company's efforts to balance these goals should be thoroughly documented to facilitate future audits.

Gas Costs Deferred During This PGA Period

Even with the price-stabilizing hedges, the authorized forward price was both lower and higher than the amount the Company paid for gas during the last PGA period. However, from April 2001 through June 2002, the Company was generally able to secure gas at a price that was lower than the Commission-authorized WACOG. That allowed the Company to credit customers with the difference and pay down the deferral account faster than previously forecasted. The deferred costs also include credits for capacity releases, off-system sales, a refund from Northwest Pipeline, interest charges and credits and other items listed in the table above. The Company seeks to recover the total deferred amount of $8.7 million that remains as of June 2002.

Collection of Previously Deferred Amounts

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 has been below the WACOG, the deferral account has 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 favors the one-year recovery, but is concerned that the Company-recommended surcharge is calculated on the June 30, 2002 balance. By calculating the surcharge on that date, the Company does 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 estimates that Avista has recovered an additional $1.2 million.

Staff recommends that the Schedule 155 tariff be amended to reduce the proposed surcharge rate by including additional deferral recovery through October. By including the amounts already collected, Staff recommends that the surcharge rate be reduced to $.11018 per therm. Although Staff has not audited the Company's July 2002 through October 2002 amounts, Staff will do so in the next PGA filing. Any cost recovery for those months that differ from the amounts included in this case will be adjusted in the PGA tracker next year.

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

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, 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 has monitored the large customer deferral payment activity and believes that the resulting deferral collection has benefited Avista's large customers and protected the general body of ratepayers. The large customers were allowed to change tariff schedules and pay-off their individual portion of the deferral. The individual payments reduced the deferral and avoided a shift of the deferral to the general body of ratepayers. Staff will continue to monitor the Company's treatment of its large customer deferrals.

CONSUMER ISSUES

When Avista Utilities filed its Application in Case No. AVU-G-02-2 on September 16, 2002, copies of both the customer notice and the press release were included as a part of the filing. The customer notice and the press release both met the requirements of Rule No. 102, Notices to Customers of Proposed Changes in Rates in the Utility Customer Information Rules.

IDAPA 31.21.02.102. The Company included the customer notices in billing statements beginning September 17 and will continue to do so through mid-October.

Since the Application was received, the Commission has received one (1) written comment asking the Commission to vote "in favor of the reduction." The Consumer Assistance Staff has not received any calls concerning the proposed reduction in rates.

Since Avista's last gas increase became effective on September 1, 2001 and 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 anticipates the pending rate decrease will help alleviate customers' concerns over the cost of natural gas and how that affects their monthly bills.

RECOMMENDATIONS

Consistent with the foregoing comments, Staff recommends that the Commission approve the Company's Application with the following two changes:

1. Deferrals should be credited for the months of July 2002 to October 2002.
2. Idaho's share of projected gas costs included in the Company's WACOG should be calculated based on Idaho's percentage of the Company's actual usage as opposed to the percentage of the five-peak-day usage.

Respectively submitted this ______ day of October 2002.

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Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Michael Fuss
Alden Holm
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