BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO CHANGE ITS RATES AND CHARGES (2011 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-11-04** **ORDER NO. 32370**

On August 15, 2011, Avista Corporation filed its annual Purchased Gas Cost Adjustment (PGA) Application. The Company initially requested authority to increase its annualized revenue by about \$1.1 million (1.53%). Application at 1. The Company then amended its Application to request a lesser, \$0.7 million (.98%) annualized revenue increase. *See* Amended Application. The Company asked that its Application be processed by Modified Procedure, and that the new rates take effect October 1, 2011.

On August 25, 2011, the Commission issued a Notice of Application, Notice of Modified Procedure, and Order setting a September 21, 2011 comment deadline. *See* Order No. 32335 and subsequent Errata. The Commission Staff filed comments recommending that the Commission approve the Company's proposed changes. Staff's comments were the only comments filed in the case.

Having reviewed the Application as amended, the comments, and other filings of record in this case, the Commission makes the following findings and conclusions and enters its Order approving Avista's proposed changes to its natural gas rates and charges.

THE APPLICATION

Avista states that if the proposed changes are approved, its annual revenue will increase by \$0.7 million (about 0.98%) but its earnings will not increase. The Company further states that an average residential or small business customer will see an increase of \$0.67 per month (about 1.10%).

Avista says it buys natural gas for customer usage and then transports the gas through pipelines for delivery to customers. The Company says it 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. The Company also defers various pipeline refunds or charges and miscellaneous revenue received from natural gas-related transactions, including pipeline capacity releases. Application at 2.

Avista proposes *decreasing* the commodity cost (i.e., the WACOG) from the currently approved $0.461 per therm to $0.418 per therm, for a $0.043 per therm decrease. Amended Application at 1.

Avista says it has periodically hedged gas throughout 2011 for the coming PGA year (13 months). The Company says it will hedge approximately 70% of its estimated annual load requirements for the PGA year (October 2011 – October 2012) at a fixed price comprised of: (1) 32% of volumes hedged for a term of one-year or less; (2) 18% of prior multi-year hedges; and (3) 20% from underground storage. *Id.* Through July, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.476 per therm. Amended Application at 1-2.

Avista says that average daily wholesale prices of natural gas have stayed at levels similar to 2010; however, the prices of natural gas during the storage injection season (April - September) have been slightly higher than in 2010. *See* Application at 3. These higher prices have raised the storage WACOG above what is currently in embedded rates. The Company notes, though, that while gas prices are currently higher than levels experienced a year ago, the forward prices for the upcoming PGA year have continued to drop. The Company contends this decline has provided the opportunity to hedge natural gas at a cost below what is embedded in rates, and that this decreased hedge cost more than offsets the storage WACOG increase. *Id.*

Avista maintains that the demand costs in its Application primarily represent the costs of pipeline transportation to the Company's system. The Company proposes a slight increase in demand charges due, in part, to a proposed rate case settlement between Gas Transmission Northwest and gas shippers (including Avista). The Company states the proposed settlement is to be filed with FERC in the near future, and that the Company expects it to be approved. *Id.* at 4.

Avista proposes to increase the amortization rate to about $0.047 per therm. This increase results from the large, one-year 2010 refund amortization rate being replaced by a smaller rate. The Company states the larger refund balance from the prior PGA was almost totally amortized in the current PGA year, resulting in a reduction in the refund amortization rate in this PGA. The Company states this reduction, coupled with current refund balances of $1.6 million, results in a $0.047 per therm increase in Schedule 155. *Id.*

Avista asserts it has notified customers of its proposed increase in gas rates by posting a notice at each of the Company's district offices in Idaho, by means of a press release distributed to various informational agencies, and by individual notice to each of its Idaho gas customers via a bill insert. *Id.* at 2.

THE COMMENTS

Staff has reviewed the Company's Amended Application to determine whether the Company's adjustments to Schedule 150 and 155 reasonably capture its fixed (demand) and variable (commodity) costs. More specifically, Staff has reviewed the Company's pipeline transportation and storage costs, fixed price hedges, estimates of future commodity prices, and its risk management policies. Staff has also reviewed the appropriateness of the Schedule 155 change in amortization rates that "true up" the expenses from the 2010 PGA.

The Company filed proposed rate changes that would increase annual revenue by approximately $0.7 million, or about .98%. Under the proposed rates, a Schedule 101 residential or small business customer using an average of 62 therms per month will see an average increase of $0.67 per month, or about 1.10%.

The Company proposes a WACOG of $0.41797 per therm. This is lower than the currently approved WACOG of $0.45817 per therm. The WACOG decline primarily has occurred because natural gas prices have continued declining due to regional and national economic weakness that has reduced the weather-adjusted natural gas demand when natural gas supplies have been plentiful. Staff has reviewed the Company's proposed WACOG and its forecasted natural gas prices through October 2012. Staff believes the Company's forecasted natural gas prices are reasonable.

The Schedule 155 portion of the PGA is the amortization component of the Company's deferral account. When the Company pays more for gas than what is estimated in the preceding WACOG, a surcharge is assessed to customers. If the Company pays less for gas than what is estimated in the preceding WACOG, a credit is issued to customers. The proposed change in the amortization rates are an increase of approximately 4.7 cents per therm. This increase is a result of the large, one-year refund amortization rate from the 2010 PGA being replaced by a smaller, one-year (13-month) amortization rate proposed in this filing. The large refund balance from the 2010 PGA was almost completely amortized during the current PGA year resulting in a reduction in the refund amortization rate in this current PGA application. This reduction, coupled with the current refund balances of approximately $1.6 million, results in the increase of approximately 4.7 cents per therm.

Based on its analysis, Staff recommended that the Commission approve the change in natural gas rates and prices proposed in the Company's Amended Application.

FINDINGS AND DISCUSSION

The Commission has reviewed the case record, including the Application and comments. The Commission has jurisdiction over Avista Corporation, a public utility, its Application for authority to change rates and prices, and the issues involved in this case pursuant to Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502, along with the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

The Commission must establish just, reasonable, and sufficient rates for utilities subject to its jurisdiction. *Idaho Code* § 61-502. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage and other related costs of acquiring and delivering natural gas. The Company's earnings are not increased from changes in prices and revenues resulting from the annual PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

Avista follows a flexible, diversified natural gas purchasing plan and effectively manages its underground natural gas storage facility. This allows Avista to provide more stable and lower prices to its customers. However, the natural gas market continues to be volatile. Natural gas prices over the storage injection season have slightly increased, resulting in a storage WACOG that is higher than what is currently in rates. However, natural gas prices in the forward market have continued to drop, allowing the Company to hedge natural gas at a lower cost than what is currently embedded in rates. The decreased hedge cost more than offsets the storage WACOG increase. Consequently, the Commission finds it reasonable to decrease the approved WACOG from $0.45817 per therm to $0.41797 per therm. The Company's proposed WACOG was compared to other forecasts and is consistent with the forecasted northwest regional cost of natural gas.

Despite a decrease in the WACOG, the Schedule 155 refund rate required to amortize the current deferral is less than the large amortization rate approved in the 2010 PGA filing. The reduction coupled with the current refund balances (approximately $1.6 million) result in a Schedule 155 rate increase of approximately 4.7 cents per therm. The Commission approves this increase and the proposed one-year (13-month) amortization of deferred expenses.

Finally, the Commission directs the Company to promptly file an application amending its WACOG should gas prices materially deviate from the presently approved $0.41797 per therm.

ORDER

IT IS HEREBY ORDERED that Avista Corporation's Purchased Gas Cost Adjustment (PGA) Application is approved. The Company shall increase its annualized revenues by $0.7 million and establish a WACOG of $0.41797 per therm. The Company is directed to file conforming tariffs to be effective for service rendered on and after October 1, 2011.

IT IS FURTHER ORDERED that Avista promptly file an application to amend its WACOG should gas prices materially deviate from the presently approved $0.41797 per therm.

IT IS FURTHER ORDERED that Avista continue to file quarterly WACOG projections and monthly deferred cost reports with the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of 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 30th day of September, 2011.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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