DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL

DATE: FEBRUARY 23, 2012

SUBJECT: AVISTA'S PURCHASED GAS COST ADJUSTMENT (PGA)
PROPOSED MARCH 1, 2012 RATE DECREASE
CASE NO. AVU-G-12-01

On February 15, 2012, Avista Corporation dba Avista Utilities applied to the Commission for authority to decrease natural gas rates as a result of declining natural gas prices. More specifically, the Company asked to decrease its weighted average cost of gas ("WACOG") from 41.8 cents per therm to 36.2 cents per therm. The Company states the new rates will decrease annual revenues by about $4.1 million but will not decrease its earnings. The Company notes that under its proposal, the average residential or small business customer bill will decrease by about $3.46 per month, while the average, large commercial customer bill will decrease by about 7.30%. The Company asks that the new rates take effect on less than 30 days' notice, on March 1, 2012.

THE APPLICATION

Avista seeks to amend its existing rates and charges for natural gas service as reflected in a proposed, Seventeenth Revision Sheet 150 to approved Tariff IPUC No. 27. Application at 2. If the proposed tariff sheet is approved, the Company's annual revenue will decrease by approximately $4.1 million (about 6.0%). The changes will not affect the Company's net income. *Id.*

The Application reflects Avista's proposed out-of-period Purchased Gas Cost Adjustment (PGA) to pass through to customers changes in the estimated cost of natural gas for the eight months from March 2012 through October 2012. *Id.* at 2. The Company estimates the

WACOG will decrease by 5.6 cents per therm (from the 41.8 cents per therm currently included in rates to 36.2 cents per therm). *Id.* at 3.

In the Application, the Company notes that its 2011 PGA filing used a 30-day historical average of forward prices ending August 22, 2011, by supply basin to develop an estimated cost associated with index/spot purchases. The estimated monthly volumes to be purchased by basin are multiplied by the (30-day) average price for the corresponding month and basin. These index/spot volumes represented approximately 30% of estimated annual load requirements for the PGA year. *Id.*

The Company notes that average, daily wholesale prices of natural gas have declined substantially from the forward prices used in the 2011 PGA filing. While we are now 5 months into the present 13-month PGA year (October 2011 through October 2012), Avista believes that it is in its customers' best interest to update the pricing of the remaining estimated index/spot volumes and pass those lower index prices to customers now through a lower overall rate. The Company also believes that this is in compliance with Order No. 32370 which, when approving the Company's 2011 PGA, stated that "Avista promptly file an application to amend its WACOG should gas prices materially deviate from the presently approved $0.41797 per therm" rate. *Id.* at 3.

Avista is not proposing changes to Schedule 150's other components (demand costs, variable transportation, etc.) or to current amortization rates (Schedule 155). The Company will propose changes to those items in the normal annual PGA filing in September 2012. *Id.*

If the Application is approved, the average residential or small business customer using 62 therms per month will see a decrease of $3.46 per month, or about 5.68%. Larger commercial customers can expect an average decrease of about 7.30% for general service (Schedule 111), and about 9.74% for interruptible service (Schedule 131). *Id.* at 2 and Exhibit B (Notice of Public Applicant's Proposed Tariffs).

Avista notified the public of the proposed decrease by posting notice at its Idaho district offices and issuing a press release. If the Application is approved, the Company maintains that it will also notify customers by placing a message on their bills. Application at 2.

STAFF RECOMMENDATION

After examining Avista's Application, Staff believes that the accounting treatment used by the Company is appropriate. By only proposing a change to the WACOG, only

Commodity Charges contained within Schedule 150 are affected. Current demand charges and transportation rates in Schedule 150 and current amortization rates in Schedule 155 are unaffected. The reduction in the WACOG reflected in this filing will affect rates collected once approved. Variation between actual and projected gas prices will be deferred and become part of the true-up of the Company's balancing account in the Company's normal PGA filing expected to be effective October 1, 2012.

Staff compared Avista's changes of projected index and spot gas prices for non-hedged volumes of natural gas to NYMEX/NGX futures prices for basins from which the Company sources its gas. Based on its analysis, Staff believes that the Company's proposed WACOG is reasonable. Staff believes that the proposed decreases from the Company's previous PGA filing provide sufficient cause to allow the rates to take effect on less than 30 days' notice. *See* Rule 123 and 134 (rates and changes may take effect on less than 30 days' notice if "the Commission approves an earlier effective date for good cause shown"). Therefore, Staff recommends that the Commission approve the Company's Application to decrease rates without further delay or comment, and that the rates take effect March 1, 2012.

Staff has also found evidence that index gas prices have continued to soften since Avista prepared its Application. Staff recommends that the Company be required to continue to monitor future index and spot prices and be required to file another application to amend its WACOG should gas prices materially deviate from the proposed rate of $0.36216 per therm.

COMMISSION DECISION

Does the Commission wish to approve the Company's Application to decrease its rates without further comment or procedure?

Karl Klein
Deputy Attorney General

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