DECISION MEMORANDUM

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

FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL

DATE: AUGUST 8, 2012

SUBJECT: AVISTA'S 2012 ANNUAL PGA FILING, CASE NO. AVU-G-12-05

On July 31, 2012, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application asking to *decrease* its annualized revenues by about $3.6 million (5.4%). Application at 1.[1] The Company says its proposal will not affect its earnings and will *decrease* the average, residential or small commercial customer's rates by $4.42 per month (7.9%). *Id.* at 4. The Company asks that its Application be processed by Modified Procedure, and that the new rates take effect October 1, 2012. *Id.* at 5.

THE APPLICATION

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. *Id.* at 2.[2] The Company buys natural gas and then transports it through pipelines for delivery to customers. *Id.* at 2. The Company 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. *Id.* The Company also defers various pipeline refunds or charges and miscellaneous revenue received from natural gas related transactions, including pipeline capacity releases. *Id.* In its annual PGA filing, the Company proposes to (1) pass any change in the estimated cost of natural gas for the next 13 months to customers (Schedule 150), and (2) revise

[1] The PGA mechanism is used to adjust rates to reflect annual changes in the Company's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs.

[2] The Company also generates, transmits, and distributes electricity in northern Idaho and eastern Washington. *Id.*

the amortization rates to refund or collect the balance of deferred gas costs (Schedule 155). *Id.* at 2, 4.

The Company's present PGA filing would impact customers as follows:

Service	Schedule No.	Commodity Change per Therm	Demand Change per Therm	Total Sch. 150 Change	Amortization Change per Therm	Total Rate Change per Therm	**Overall Percent Change**
General	101	($0.02931)	($0.00849)	($0.03780)	($0.00890)	($0.04670)	**(5.02%)**
Lg. General	111	($0.02931)	($0.00849)	($0.03780)	($0.00890)	($0.04670)	**(6.31%)**
Interruptible	131	($0.02931)	$0.00000	($0.02931)	($0.00203)	($0.03134)	**(6.06%)**

Commodity Costs. Avista proposes *decreasing* the commodity cost (i.e., the WACOG) from the currently approved $0.362 per therm to $0.333 per therm, for a $0.029 per therm decrease. *Id.* at 3.

2. Hedging. Avista says it periodically hedged gas throughout 2012 for the coming PGA year (13 months), and that it will hedge about 60% of its estimated annual load requirements for the PGA year (October 2012 – October 2013) at a fixed price comprised of: (1) 11% of volumes hedged for a term of one-year or less; (2) 29% of volumes from prior multi-year hedges; and (3) 20% of volumes from underground storage. *Id.* Through June, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.309 per therm. *Id.*

Avista says overall prices today are lower than they were in 2011. The Company notes it filed an out-of-cycle PGA in February 2012 to reflect lower spot prices, and that since then natural gas prices have stabilized at a much lower level than this time last year. Further, natural gas prices during the storage injection season (April - September) have been lower than they were in 2011. *See* Application at 4. These decreased prices have lowered the storage WACOG below what is currently in embedded rates. *Id.* The lower cash prices and forward prices for the upcoming PGA year have provided the opportunity to hedge natural gas at a cost below what is embedded in rates. *Id.*

3. Demand Costs. Avista's demand costs account for pipeline capacity releases and represent the costs to transport gas through pipelines to the Company's system. The Company proposes *decreasing* demand costs because increasing estimated pipeline capacity releases and decreasing costs from the Canadian pipelines more than offset increased demand costs arising from the recent Northwest Pipeline rate case approved by FERC. *Id.*

4. Amortization Rate Change. Avista proposes to increase the amortization refund rate by $0.00890 per therm (from $0.02885 per therm to $0.03775 per therm). *Id.* This increase is driven by the recent decline in the wholesale cost of natural gas, which has resulted in a net refund deferral balance of about $3.1 million. The Company proposes to refund this balance to customers over the next 13 months, assuming normal weather. *Id.*

5. Customer Notice. Avista asserts that it has notified customers of its proposed tariffs by posting notice at each of its Idaho district offices, through a press release. Further, the Company says it will send notice to each customer in a bill insert before the changes take effect. *Id.* at 2.

STAFF RECOMMENDATION

Staff recommends that the case be processed through Modified Procedure, with comments due by September 17, 2012.

COMMISSION DECISION

Does the Commission wish to process this case through Modified Procedure, with comments due by September 17, 2012?

Karl Klein
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