Office of the Secretary
Service Date
October 31, 2014

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO CHANGE ITS RATES AND CHARGES (2014 PURCHASED NATURAL GAS COST ADJUSTMENT)	)))))	**CASE NO. AVU-G-14-04** **ORDER NO. 33160**

On September 15, 2014, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application. The PGA is a rate mechanism used to adjust rates up or down to reflect changes in the market price of natural gas, and changes in transportation and storage costs. These changes in Avista's natural gas costs are deferred to the PGA account. In this Application, Avista proposed to decrease its PGA rates an average of 2.1%, or about $1.6 million per year. Application at 1. Avista asks that the new rates take effect November 1, 2014. *Id.* at 5.

On September 23, 2014, the Commission issued a Notice of Application and Notice of Modified Procedure soliciting public input on the Application and setting an October 17, 2014 comment deadline. Order No. 33133. Commission Staff was the only party to submit comments, and recommended the Commission approve Avista's Application. The Company did not reply.

Having reviewed the record, the Commission issues this Order granting the Company's Application as discussed below.

THE APPLICATION

Avista distributes natural gas in northern Idaho, eastern and central Washington, and southwestern and northeastern Oregon. Application at 2. Avista buys natural gas and then transports it through pipelines for delivery to customers. *Id.* at 2. In this PGA Application, Avista proposes to: (1) pass any change in the estimated cost of natural gas for the next 12 months to customers (tariff Schedule 150); and (2) revise the amortization rates to refund or collect the balance of deferred gas costs (tariff Schedule 155). *Id.* at 2, 4.

A. Schedule 150

The tariff Schedule 150 portion of the PGA has two parts: the commodity costs and the demand costs. The commodity costs are the variable cost of gas the Company must procure to satisfy its estimated annual throughput requirements. The weighted average cost of gas (WACOG) approximates a utility's commodity costs, and also includes other variable administrative costs. Avista estimates that its commodity costs will *increase* $0.0116 per therm from the currently approved $0.374 per therm, to $0.385 per therm. *Id.* at 3.

Demand costs are the fixed capacity costs for interstate transportation and underground storage, as well as capacity releases which are credited back to customers. Avista's demand costs are primarily costs to transport gas on interstate pipelines to Avista's local distribution system. *Id.* at 4. Avista proposes *decreasing* demand costs due to high projected-usage for fixed-demand costs which more than offset expiring short-term capacity release credits on Northwest Pipeline and increasing summer capacity on TCPL-Alberta pipeline. *Id.*

Avista periodically hedged gas throughout 2014 for use during the coming PGA year (12 months). Utilities engage in "hedging" to minimize the price volatility of natural gas and other fossil fuels. Order No. 32697 at 37. Avista states that it will hedge about 35% of its estimated annual load requirements for the PGA year (November 2014 – October 2015) at a fixed price comprised of: (1) 13% of volumes hedged for a term of one year or less; and (2) 22% of volumes from prior multi-year hedges. Application at 3. Through June, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.425 per therm. *Id.*

B. Schedule 155

Tariff Schedule 155 reflects the amortization of Avista's deferral account. Avista proposes decreasing the amortization refund rate by $0.03071 per therm (from a $0.00015 per therm surcharge to a $0.03056 per therm rebate). *Id.* at 4. This decrease is driven by changes in the demand portion of the amortization rate, including (1) colder than normal weather during the 2013-2014 winter, resulting in higher demand cost collections; (2) Avista entered into a new Deferred Exchange contract, effective April 2014, for which Avista charges a fixed-per-therm charge; and (3) an error regarding allocation of Avista's transport costs between power supply operations and natural gas distribution operations, resulting in a net benefit to customers. *Id.*

C. Proposed Rates

As set out in the table below, Avista's proposal will *decrease* the average residential or small commercial customer's rates (Schedule 101) by $1.16 per month (about 2%). *Id.* at 4. Avista also proposed that large commercial customers' rates (Schedule 111) *decrease* by 2.5%, but Avista's sole interruptible customer's PGA rate (Schedule 131) will *increase* by about 0.2%. *Id.* at 3. Avista's proposal will not affect its earnings.

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	$0.01160	($0.00022)	$0.01138	($0.03071)	($0.01933)	**(1.91%)**
Lg. General	111	$0.01160	($0.00022)	$0.01138	($0.03071)	($0.01933)	**(2.49%)**
Interruptible	131	$0.01160	0.00000	$0.01160	$0.00119	$0.01279	**0.20%**

STAFF COMMENTS

Staff reviewed Avista's records from the year, as well as its Application and working papers. Based upon its audit, Staff believes Avista's proposed adjustments to Schedules 150 and 155 accurately capture the Company's fixed (demand) and variable (commodity) costs given the coming year's forecasted gas purchases and the reconciliation of expenses from the prior year. Staff therefore supports the Company's Application.

Turning to Schedule 150, Staff determined the Company's weighted average cost of its current hedges and its estimated cost of forward-looking index purchases are reasonable and prudent. Staff thus recommended the Commission accept the Company's proposed WACOG of $0.38510 per therm. As to Schedule 155, the Company proposes to decrease the amortization rate by $0.03071 per therm. Staff recommended the Commission also approve the Company's proposed Schedule 155 amortization rate of $0.03056 per therm credit, to refund approximately $2.4 million to customers.

DISCUSSION AND FINDINGS

The Commission has reviewed the case record, including the Company's Application, and Staff comments. Avista is a public utility, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code. *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502. 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 annual changes in the Company's costs for the purchase of natural gas from suppliers – including transportation, storage and other related costs. The Company's earnings are not to be increased from changes in prices and revenues resulting from the PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

Based on our review, we find it reasonable to approve the Company's proposed tariff Schedule 150, including the proposed WACOG of $0.38510 per therm. The Company's proposed WACOG was compared to other forecasts and is consistent with the forecasted

Northwest regional cost of natural gas. We also find it reasonable to approve the $0.03056 per therm amortization rate for the proposed tariff Schedule 155 deferral balances. The proposed changes shall take effect on November 1, 2014. *Idaho Code* § 61-618.

We direct the Company to promptly file an application amending its WACOG should gas prices materially deviate from the WACOG approved in this Order.

ORDER

IT IS HEREBY ORDERED that Avista Corporation's Purchased Gas Cost Adjustment (PGA) Application is approved.

IT IS FURTHER ORDERED that the Company's Schedule Nos. 150 and 155, included as Exhibit A to the Application, are approved effective November 1, 2014.

IT IS FURTHER ORDERED that Avista promptly file an application to amend its WACOG should gas prices materially deviate from the WACOG approved in this Order. Avista shall also 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 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 31st day of October, 2014.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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