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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO CHANGE ITS NATURAL GAS RATES AND CHARGES (2015 PURCHASED GAS COST ADJUSTMENT).	))))))	**CASE NO. AVU-G-15-02** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Avista Corporation's Application.

BACKGROUND

On August 27, 2015, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application. The PGA is, in summary, a Commission-approved mechanism that adjusts rates up or down to reflect changes in Avista's costs to buy natural gas from suppliers—including changes in transportation, storage, and other related costs. Avista defers these costs into its PGA account, and then passes them to customers through an increase or decrease in rates.

With this 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). Avista's proposal would *decrease* Avista's PGA rates by about $10.3 million (14.5%). Average residential or small commercial customer's rates would decrease by $7.94 per month (about 13.4%). Large commercial customers' rates would *decrease* by about 18%. The rate of Avista's sole customer receiving interruptible service would *decrease* by about 24.6%. Avista's proposal would not affect Avista's earnings. Avista asks the Commission to process the Application by Modified Procedure, and that the new rates take effect November 1, 2015.

STAFF ANALYSIS

Avista's PGA Application proposes the following changes:

Table 1: Rate Changes by Class

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	$(0.13312)	$0.00133	$(0.13179)	$0.00170	($0.13009)	**(13.4%)**
Lg. General	111	$(0.13312)	$0.00133	$(0.13179)	$0.00170	($0.13009)	**(18.0%)**
Interruptible	131	$(0.13312)	0.00000	$(0.13312)	$(0.02097)	($0.15409)	**(24.6)%**

To assess the reasonableness of the proposed changes, Staff examined Avista's gas purchases for the year, its fixed price hedges, pipeline transportation and storage costs, and estimates of future commodity prices. Staff also reviewed Avista's jurisdictional allocations and the reasonableness of Avista's Lost and Unaccounted for Gas (LAUF) volumes.[1] Staff thoroughly analyzed Avista's Application and work papers and verified that Avista's filing will not change Avista's earnings. Staff also confirmed that the proposed changes to Schedules 150 and 155 accurately capture Avista's fixed (demand) and variable (commodity) costs given the coming year's forecasted gas purchases and properly amortize the deferral balance from the prior year. Based on its review, Staff recommends that the Commission approve Avista's PGA Application and proposed tariffs as filed. Staff's analysis and recommendation is discussed in detail below.

Schedule 150 – Purchased Gas Cost Adjustment

The tariff Schedule 150 portion of the PGA consists of commodity costs and demand costs. These two types of costs are discussed in turn below.

Avista's commodity costs are the variable costs that Avista incurs to buy natural gas. The weighted average cost of gas (WACOG) is an estimate of those costs. In this case, Avista estimates its commodity costs will *decrease* by $0.133 (13.3¢) per therm, from the currently

[1] LAUF Gas is the difference between the volumes of natural gas delivered to the distribution system at the city gate and volumes of natural gas billed to customers at the meter.

approved \$0.385 (38.5¢) per therm to \$0.252 (25.2¢) per therm. However, as commodity costs can fluctuate, Avista has tried to minimize company and customer exposure to potentially rising gas costs by diversifying how it procures natural gas. Avista's procurement strategy includes hedging, the use of underground storage capacity, and estimating the cost of index purchases using a 30-day historical average of forward prices for each supply basin.

Avista's demand costs are its fixed-capacity costs for interstate transportation and underground storage, as well as capacity releases that are credited back to customers. The demand costs are primarily costs to transport gas on interstate pipelines to Avista's local distribution system. To cover demand costs, Avista proposes a \$0.0013 per therm increase in the overall demand rate for customers on Schedules 101 and 111. Avista's proposed demand rate includes the increased cost of transporting gas over TransCanada-Gas Transmission Northwest, which is to take effect on January 1, 2016.

Schedule 155 – Deferral Account

Tariff Schedule 155 reflects the amortization of Avista's deferral account. With this Application, Avista proposes to increase the amortization rate for general and large general service customers by \$0.00170 per therm. Avista explains that lower than expected wholesale natural gas prices contributed to the proposed amortization rate by causing Avista to collect revenues that exceeded its costs. Part of these revenues were offset by an under collection of fixed-demand costs that resulted from a warmer-than-normal winter. Avista notes that the increased amortization rate it proposes would decrease the rebate that customers currently enjoy from \$0.03056 per therm to \$0.02886 per therm. The new amortization rate will refund about \$2.3 million dollars to customers through the Schedule 155 portion of the PGA.

A reconciliation of the Schedule 155 deferral balance is shown on Table 2:

Table 2: Summary of Deferral Balance

Balance as of October 31, 2014	$ (1,755,891)
Amortization Activity	(1,816,587)
Total Unamortized Balance	$ 60,696
Current Year Deferral Activity	
Deferral of Price Differences	$ 916,051
Interest on Deferrals	(5,260)
Excess Capacity Releases	(2,328,176)
Deferred Exchange Contract	(945,338)
Total Current Year Deferral Activity	$ (2,362,722)
Balance to be amortized	**$ (2,302,026)**

The deferral activity consists of the difference in the price Avista paid for natural gas and the WACOG established in the previous PGA, monthly interest charges on the deferred balances, and excess capacity releases for the benefit of customers. When Avista has unused capacity, it routinely releases that capacity to other pipeline users. During the 2015 PGA year, Avista's Idaho gas customers benefitted by $2.3 million in the Schedule 155 Deferral Account from this practice.

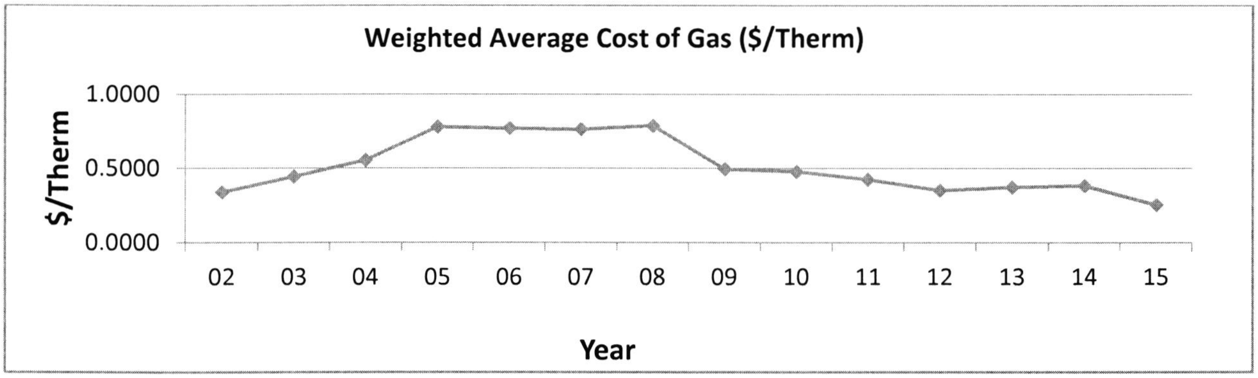
Avista has a Deferred Exchange contract under which it receives natural gas during the summer and redelivers that natural gas in winter. Avista charges a fixed per therm price for this service. Avista's proposed Schedule 150 WACOG includes a forecasted benefit of about $1.4 million for Idaho customers during the year. However, Avista allocated an additional $945,338 in benefits under the contract to Idaho customers. The additional benefits from the Deferred Exchange Contract are reflected in the deferral activity in the table above.

Weighted Average Cost of Gas (WACOG)

The WACOG includes fuel charges to move gas at the city gate, plus some variable transport costs, and Gas Research Institute (GRI) funding. It does not include third party gas management fees. In this case, Avista proposes a WACOG of 25.2 cents per therm. The approved WACOG in the Company's last annual PGA was 38.5 cents per therm.[2] Staff Chart 1, below, shows Avista's historical WACOG, and that the proposed WACOG will be a decrease following two years of consecutive increases.

[2] This includes a conversion factor that adjusts revenue up to account for uncollectables, commission fees, and taxes.

Staff Chart 1: Historical WACOG



Avista's estimated cost of gas when it files its PGA is usually close to its actual cost if it has accurately forecasted annual throughput. Here, Avista expects its gas cost for the next 12 months will decrease, because the winter of 2014-2015 was warmer than normal and led to decreased gas demand. The decreased demand, in turn, resulted in extra gas remaining in storage. This left-over stored gas has combined with high production levels to decrease the wholesale price of natural gas.

Although Avista expects gas costs to decrease, those costs may vary depending on how weather and economic conditions impact usage. To protect its customers from the risk that gas costs will increase, Avista plans to hedge about 43% of its estimated annual load requirements for the coming PGA year at an average price of $0.332 per therm.

Avista has traditionally hedged against high winter prices by purchasing gas in the summer, when prices are typically lower, and then injecting the gas into underground storage at its Jackson Prairie facility. However, during the last winter, natural gas prices declined, which diminished the benefits of summer purchases for winter use. This year, Avista is using a new Procurement Plan that takes advantage of winter prices being closer to summer prices and relies less on storage as a strategy to hedge against traditionally high winter prices. Instead, Avista will use storage to opportunistically purchase and sell gas throughout the year. Avista now says it has about 920,000 dekatherms of total capacity at Jackson Prairie. As of June 30, 2015, Avista has about 412,000 dekatherms available to serve peak day needs and 508,000 dekatherms to use to capture financial benefits.

Avista plans to meet its estimated annual load requirement using 4% underground storage, 43% hedges and 53% index purchases. In contrast, last year Avista's plan included 20%

underground storage, 35% hedges and 45% index purchases. Changes in 2014 to 2015 storage, hedge, and spot purchase ratios reflect that the Company is using the new Procurement Plan. Under the new plan, Avista expects its stored gas will have a WACOG of $0.237 per therm, and its planned hedges and index purchases will be executed at a WACOG of $0.25 per therm.

Market Fundamentals & Price Analysis

Since over half of Avista's annual throughput consists of market index purchases, Staff scrutinizes Avista's projected monthly cost of purchased gas. Avista continues to use a 30-day historical average of forward prices to forecast the volume-weighted average annual index price, and forecasts a mainline fuel cost of $2.50/MMBtu. To test Avista's forecast, Staff developed its own volume-weighted forecast using the NYMEX/NGX Futures prices at each of the three hubs where Avista purchases gas.[3] By using Avista's estimated volume allocation percentages for these three hubs, Staff forecasts the volume-weighted cost of gas to be $2.48/MMBtu. Staff's forecast is thus similar to Avista's forecast.[4]

Staff also examined the forecasts of national and regional organizations to see how perceived market conditions might vary from the NYMEX/NGX Futures prices. Specifically, Staff reviewed the forecasts from the Energy Information Administration (EIA) and the Northwest Gas Association (NWGA). According to the most recent EIA report, Henry Hub prices are expected to increase from an average price of $2.84/MMBtu in 2015, to $3.11/MMBtu in 2016. Avista predominately purchases gas from the AECO basin, which this year is selling gas for about 8% less than gas from Henry Hub.

Based on Staff's review of the market fundamentals and trends, the 2015-2016 forecasts are consistent, predicting relatively stable near-term gas prices. Staff concludes that Avista's weighted average cost of its current hedges, and estimated cost of forward-looking index purchases, are reasonable. Staff thus recommends the Commission accept Avista's proposed WACOG of $0.252 per therm. Staff also recommends that Avista return to the Commission with a new filing if prices materially deviate from the proposed rates during the upcoming year.

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[3] Avista is supplied by three natural gas hubs (Rockies, Sumas, and AECO). Future settlement prices are reported daily as a price differential from the NYMEX Henry's Hub price.

[4] Avista's proposed WACOG is slightly higher than the Avista's mainline fuel cost because the WACOG includes variable interstate transportation costs, and contributions to the Gas Research Institute (GRI).

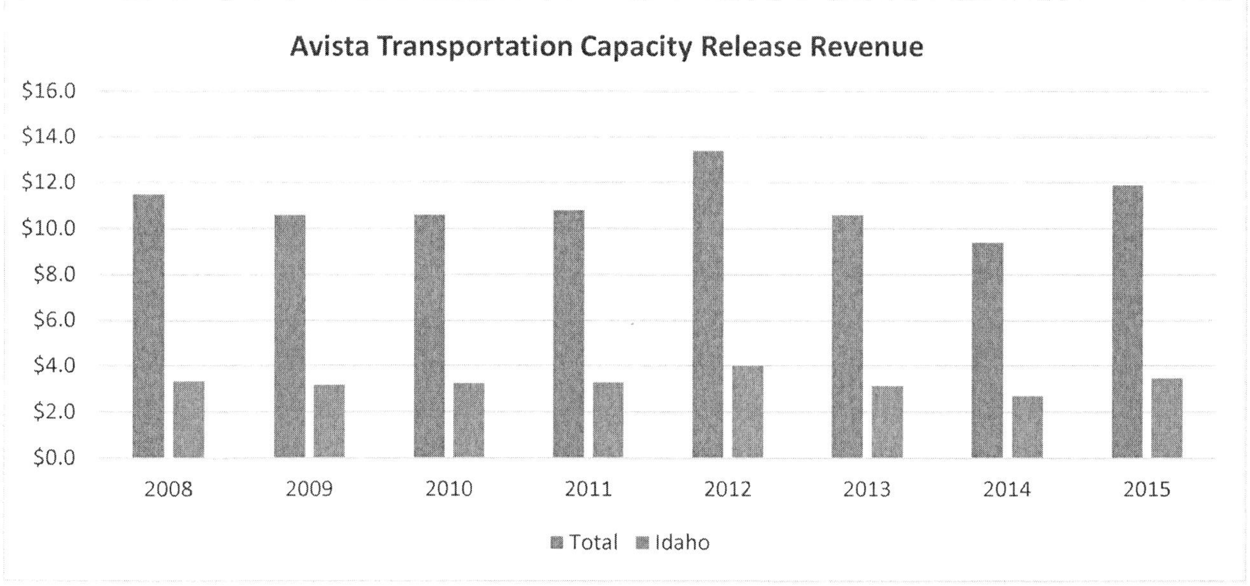
Risk Management

Avista uses a diversified approach to procure natural gas for the coming PGA year. Avista's Procurement Plan uses a structured approach to execute its hedges that includes a range of possible hedge windows with varying long-term and short-term trigger prices. However, its Procurement Plan also allows it to make discretionary decisions so it can adjust to changes in market conditions. A new provision of the Procurement Plan calls for Avista to lock in financial benefits for Avista and its customers. In summary, when Avista buys gas for storage incection, it will also agree to sell the gas forward at a fixed price. This reduces volatility in the average cost of stored gas. Avista mitigates risk to ratepayers with its market purchases, storage, and interstate transportation capacity. Avista meets with Staff semi-annually to discuss the status and performance of its Procurement Plan. This process allows Staff to evaluate Avista's strategies to minimize risk and keep prices stable for customers.

Avista buys the right to transport gas through several interstate pipelines. This enables Avista to buy gas from a variety of basins, both in the US and in Canada[5], and then transport that gas to Idaho and Washington. Whenever Avista has surplus capacity because demand for gas is low, it sells its surplus capacity at the highest price available. Since Avista serves both Washington and Idaho, Avista credits the benefits from off-system sales to each jurisdiction based on a three-year average of the five highest consecutive days of gas consumption in each year. Staff Chart 2, below, shows Avista's total capacity release revenue and Idaho's portion, which is typically about 30% of the total. Avista's total capacity release revenue this year is about $11.9 million, of which Idaho receives about $3.49 million with $2.3 million reflected in the deferral as shown on page 4, Table 2.

[5] Avista delivers domestically produced natural gas to its city gates through Northwest Pipeline, Gas Transmission Northwest (GTN), TransCanada's Foothills Pipeline system (Foothills), and Spectra Energy Pipeline.

Staff Chart 2: Capacity Release Revenue



Other Considerations

Staff believes that LAUF gas is an important part of its annual review. Staff reviewed Avista's LAUF gas volume and compared it to total throughput. Staff believes Avista's overall LAUF gas volume of 0.61% of throughput is reasonable compared to that of other local distribution companies (LDCs). In the past, Avista's LAUF gas information was provided at Staff's request, on an as needed basis. Last year, Avista agreed to provide a workpaper with its Application that describes the actual LAUF gas percentage of overall throughput. Staff appreciates that Avista provided the requested workpaper with this filing.

Customer Relations

Avista included a press release and customer notice in its Application. Staff determined that both documents comply with Rule 125 of the Commission's Rules of Procedure (IDAPA 31.01.01 .125). The customer notice was included with bills mailed beginning September 3, 2015 and ending October 2, 2015.

Customer Comments

Customers have the opportunity to file comments on or before October 9, 2015. As of October 8, 2015, the Commission has received no comments from customers.

STAFF RECOMMENDATION

After thoroughly examining the Avista's Application, natural gas purchases, and deferral activity for the year, Staff recommends that the Commission approve Avista's proposed:

1. Tariff Schedule 150, including the proposed WACOG of $0.252 per therm.
2. Tariff Schedule 155, including the proposed amortization rate of $0.02886 per therm credit to refund approximately $2.3 million to customers. This will result in a net decrease in the Avista's Idaho natural gas revenue by approximately $10.3 million or 14.5%.

Respectfully submitted this 9th day of October 2015.

Karl T. Klein
Deputy Attorney General

Technical Staff: Daniel Klein
Donn English
Kevin Keyt

i:umisc/comments/avug15.2kkdkdekk comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9th DAY OF OCTOBER 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-15-02, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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