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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 (2016 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-16-02** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33597 on September 9, 2016, in Case No. AVU-G-16-02, submits the following comments.

BACKGROUND

On August 29, 2016, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application. By way of summary, the PGA is a Commission-approved mechanism that adjusts rates up or down to reflect changes in Avista's cost to buy natural gas from suppliers, including costs in transportation, storage, and other related charges. Avista defers these costs into a PGA account, and then passes them on to customers through an increase or decrease in rates.

Avista distributes natural gas in Northern Idaho, Eastern and Central Washington, and Southwestern and Northeastern Oregon. Avista buys natural gas and then transports it through pipelines for delivery to customers. 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 the balance of deferred gas costs (Tariff Schedule 155). Id. at 2, 4.

With this Application, Avista proposes to *decrease* its PGA rates by about $6.1 million (7.8%). Application at 1. The proposal would *decrease* the average residential or small commercial customer's monthly bill by $4.65 per month (about 8.4%). Large commercial customers' rates would *decrease* by about 7.7%. The proposal would not affect Avista's earnings. The Company requests that the new rates take effect November 1, 2016. *Id.* at 5.

Below is a table summarizing the proposed changes reflected in this filing:

Table 1: Summary of Rate Changes

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	$(0.01140)	$0.0048	$(0.00660)	$(0.06958)	($0.07618)	**(7.7%)**
Lg. General	111	$(0.01140)	$0.0048	$(0.00660)	$(0.06958)	($0.07618)	**(7.7%)**
Interruptible	131	$(0.01140)	-	$(0.01140)	$(0.07202)	($0.08342)	**0.0%**

STAFF ANALYSIS

Staff thoroughly reviewed the Company's Application and accompanying exhibits and workpapers. Specifically, staff examined Avista's gas purchases for the year, its fixed price hedges, pipeline transportation costs, and estimates of future commodity prices, and audited the deferral balances to assess the reasonableness of the proposed changes. Staff verified 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. Staff also verified that the proposed changes to Schedule 155 will properly amortize the deferral balance from the prior year.

Based on its review, Staff confirms that the proposed changes will not affect Avista's earnings and recommends that the Commission approve the Application and proposed tariffs as filed. Staff's analysis and recommendation is discussed in detail below.

Schedule 150

Tariff Schedule 150 has two parts: (1) the commodity costs; and (2) the demand costs. Avista's commodity costs are the variable costs at which it must 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 $0.0114 per therm, from the currently approved $0.252 to $0.2406 per therm. *Id.* at 4.

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. Avista proposes a $0.0048 per therm *increase* in the overall demand rate for customers on Schedules 101 and 111. Avista's proposed demand rate includes an increased cost of transporting gas over TransCanada-Gas Transmission Northwest, which is to take effect on January 1, 2017. *See id.* at 3-4.

Schedule 155

Tariff Schedule 155 reflects the amortization of Avista's deferral account. With this Application, Avista proposes to decrease the amortization rate for general and large general service customers by $0.06958 per therm. As a result of wholesale natural gas prices that were lower than the level approved in the Company's 2015 PGA, revenue collected by the Company exceeded its costs. However, this over collection was partially offset by an under collection of fixed-demand costs resulting from warmer than normal weather conditions. If approved, the proposed amortization rate would *increase* the rebate customers receive to $0.09844 per therm from the current rate of $0.02886 per therm. Put another way, the new amortization rate will refund approximately $7.4 million to customers through the Schedule 155 portion of the PGA based on normal sales volume.

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

Table 2: Summary of Deferral Balance

Balance as of October 31, 2015	**$ (4,021,718)**
Amortization Activity	1,744,148
Total Unamortized Balance	$ (2,277,570)
Current Year Deferral Activity	
Deferral of Price Differences	$ (1,490,656)
Interest on Deferrals	(31,242)
Excess Capacity Releases	(2,709,578)
Deferred Exchange Contract	(949,500)
Total Current Year Deferral	$ (5,180,976)
Balance to be Amortized	**$ (7,458,546)**

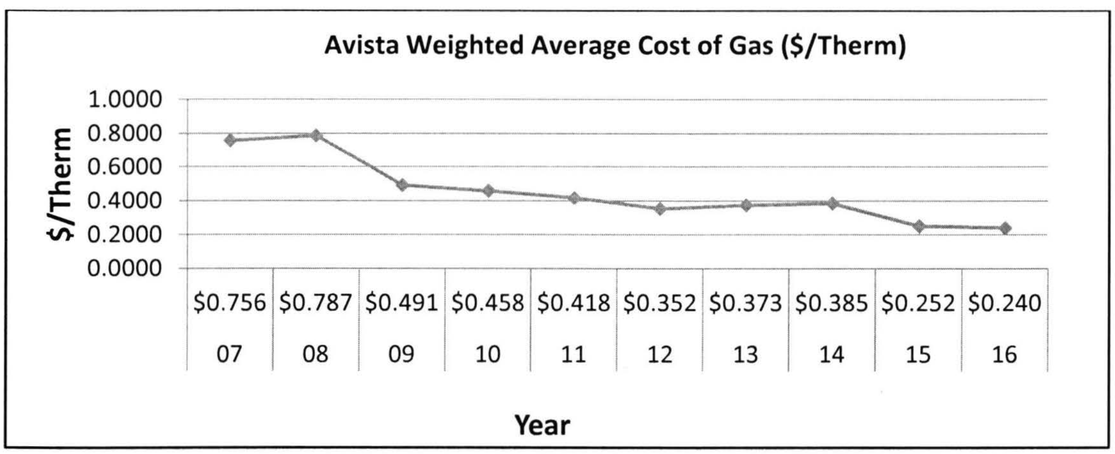
The deferral consists of the difference in the price Avista paid for natural gas and the WACOG established in the previous PGA. The deferral also includes the monthly interest charges on the deferred balances, and excess capacity releases for the benefit of customers. During the 2016 PGA year, Avista's Idaho gas customers benefitted by $2.7 million in the Schedule 155 Deferral Account.

Avista has a Deferred Exchange contract under which it receives natural gas during the summer and redelivers that natural gas in the winter. Avista charges a fixed per therm price for this service and flows any benefits through Schedules 150 and 155. Avista's proposed Schedule 150 includes a forecasted benefit of $1.46 million for Idaho customers. The amount used to reduce the WACOG included in rates. Avista also allocated an additional $949,500 in benefits under the contract to Idaho customers. The additional benefits from the Deferred Exchange Contract are reflected 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 Technology Institute (GTI) funding. Avista expects gas costs to decrease in the coming year. However, costs may vary depending on weather and economic conditions. Avista proposes a WACOG of $0.2406 per therm. The approved WACOG in the Company's last annual PGA was $0.252 per therm. Staff Chart 1 below shows Avista's WACOG has been trending downward for the past several years.

Chart 1: Historical WACOG



Market Fundamentals & Price Analysis

Approximately 55% of Avista's annual throughput consists of market index purchases. Avista continued to use a 30-day historical average of forward prices to forecast the volume-weighted average annual index price, and forecasted a mainline fuel cost of $0.244 per therm. To test Avista's forecast, Staff utilized its own volume-weighted forecast using the NYMEX/NGX Futures prices at each of the three hubs where Avista purchases gas.[1] By using Avista's estimated volume allocation percentages for these three hubs, Staff forecasted the volume-weighted cost of gas to be $0.241 per therm. Staff's forecast was consistent with Avista's forecast.[2]

The Energy Information Administration (EIA) projects Henry Hub prices will increase from an average of $2.41/MMBtu in 2016, to $3.01/MMBtu in 2017. Regionally, customers benefit from lower prices at the Sumas, Rockies, and AECO hubs when compared to the Henry Hub prices. Staff examined futures prices for the upcoming PGA year to determine price differentials between the Henry Hub and hubs the Company utilizes. For the PGA period, price differentials are AECO $-0.5527, Sumas $-0.0616 and Rockies $-0.0823. A majority of the Company's purchases are from the AECO hub.

Based on Staff's review of the market fundamentals and trends, the 2016-2017 forecasts are consistent, predicting relatively stable near-term gas prices. Staff observed that the Company's weighted average cost of its current hedges, and estimated cost of forward-looking index purchases, are reasonable. Staff recommends the Commission accept Avista's proposed WACOG of $0.2406 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.

Risk Management

Avista's Natural Gas Procurement Plan continues to use a structured approach to execute its hedges that include a range of possible hedge windows with varying long-term and short-term trigger prices. Additionally, its Procurement Plan allows the Company to make discretionary purchasing decisions so it can adjust to changes in market conditions.

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[1] 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.

[2] 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).

Avista modified its Natural Gas Procurement Plan in mid-2015, to change how the Company utilizes its portion of the Jackson Prairie storage facility. With the modified plan, storage is utilized to capture the economic benefits of purchasing lower cost natural gas throughout the year and selling it for a premium at a later time.

In previous PGA filings, the Company utilized storage to meet peak demands and to benefit from seasonal price differences. Historically, a sizable differential in summer and winter gas prices existed with summer gas being lower priced. Recently, the seasonal price differential has declined. As a result of this change, Avista is now using storage gas throughout the year to strategically hedge and optimize its index purchases and sales. Under this plan, Avista's hedges through June were executed at a weighted average price of $0.26 per therm and index purchases with a weighted average price of $0.24 per therm.

Capacity Release

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[3], and then transport that gas to its jurisdiction. As mentioned previously, whenever Avista has surplus capacity on the pipelines that serve its jurisdictions, surplus capacity is sold to other pipeline users at the highest price available. Avista credits the benefits from Idaho and Washington off-system sales to Idaho and Washington based on a three-year average of the five highest consecutive days of gas consumption in each year. Avista's total capacity release revenue this year for Idaho and Washington was $8.56 million, of which Idaho receives about $2.7 million.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Staff reviewed the documents and determined that both 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 2, 2016, and ending October 1, 2016. Customers have the opportunity to file comments on or before October 11, 2016.

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

CUSTOMER COMMENTS

As of October 11, 2016, the Commission has not received any comments from customers regarding the proposed decrease in this case.

STAFF RECOMMENDATION

After thoroughly examining 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 $0.2406 per therm.
2. Tariff Schedule 155, including the proposed amortization rate of $0.09844 per therm credit to refund approximately $7.4 million to customers. This will result in a net decrease in Avista's Idaho natural gas revenue by approximately $6.1 million or 7.8%.

Respectfully submitted this 11th day of October 2016.

Brandon Karpen
Deputy Attorney General

Technical Staff: Daniel Klein
Donn English
Kevin Keyt
Bentley Erdwurm

i:umisc/comments/avug16.2bkdkdekkbe comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11th DAY OF OCTOBER 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-16-02, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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