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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES FOR AN ORDER APPROVING A CHANGE IN NATURAL GAS RATES AND CHARGES	**CASE NO. AVU-G-17-04** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Camille Christen, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33886 on September 21, 2017, submits the following comments.

BACKGROUND

On August 31, 2017, Avista Corporation dba Avista Utilities applied to the Commission for an Order authorizing Avista to decrease its Purchased Gas Cost Adjustment (PGA) rates by about $1.7 million. The PGA is a Commission-approved mechanism that adjusts rates up or down each year 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 on to customers through an increase or decrease in rates.

Avista is a public utility that 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. Avista's rates for natural gas service in Idaho include a base rate component and a gas-related cost component. The base rate component is intended to cover Avista's fixed costs to serve its Idaho customers – for example, the Company's costs for equipment and facilities to provide service. The current base rates were approved in Order No. 33437, Case No. AVU-G-15-01. Separately from this Application, the Company has applied to this Commission for an Order allowing Avista to increase its base rates for natural gas service. *See* Case No. AVU-G-17-01. The gas-related cost component of Avista's rates is at issue in this case.

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 annual revenue by about $1.7 million (2.7%). If approved, residential or small commercial customer's using an average of 61 therms per month would decrease by $1.23 per month (about 2.4%). Application at 4. Large General Service customers' rates would also *decrease* by about 3.8%. The rate of Avista's customer receiving interruptible service would not change. Avista's proposal would not affect Avista's earnings. Avista asks that the new rates take effect November 1, 2017. Application at 5.

The Company summarizes the effect of the proposed rates (that is, the change from current rates) as follows:

Table 1: Summary of Proposed 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	$(0.02167)	$(0.00831)	$(0.02998)	$0.00982)	($0.02016)	**(2.5%)**
Lg. General	111	$(0.02167)	$(0.00831)	$(0.02998)	$0.00982	($0.02016)	**(3.8%)**

Id. at 3.

STAFF ANALYSIS

Staff reviewed the Company's Application and accompanying exhibits and workpapers and supports the Company's proposal to reduce natural gas revenues in Idaho by approximately $1.7 million. Staff examined the Company's gas purchases, fixed price hedges, pipeline transportation costs and storage costs and estimates of future commodity prices. Additionally, Staff audited the Company's deferral balances to assess the reasonableness of the proposed changes. Staff also reviewed Avista's jurisdictional allocations and Avista's Lost and Unaccounted for Gas (LAUF) volumes.[1] Based on its review, Staff recommends that the Commission approve Avista's PGA Application and proposed tariffs as filed. Staff's analysis and recommendations are 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. 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 $0.02167 (2.2¢) per therm, from the currently approved $0.2406 (24.06¢) per therm to $0.2190 (21.90¢) per therm.

Avista's demand costs reflect the cost of pipeline transportation to the Company's system and fixed costs associated with natural gas storage. In this Application, Avista proposes a $0.00831 per therm decrease in the overall demand rate. The proposed decrease is primarily due to new transportation rates for Williams Northwest Pipeline effective on January 1, 2018 and October 1, 2018.

Schedule 155 – Deferral Account

Tariff Schedule 155 reflects the amortization of Avista's deferral account. This schedule applies to general and large general service customers (residential and certain commercial customers). Other commercial customers (those taking service under Tariff Schedule 112), and High Annual Load Factor Large – Interruptible Service customers under Tariff Schedule 132 do not participate in the amortization, but receive a one-time rebate or surcharge. Avista proposes to decrease the amortization rate in Tariff Schedule 155 by $0.00982 per therm. The existing rate is $0.09844 per therm in the rebate direction; the proposed rate is $0.08862 in the rebate direction.

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

[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.

Table 2: Summary of Deferral Balance

Amortization Balance as of October 31, 2016	**$ (7,021,399)**
Amortization Activity	6,801,480
Interest on Unamortized Balance	(19,479)
Total Unamortized Balance	$ (239,398)
Deferral Balance as of October 31, 2016	$(1,599,231)
Deferral of Demand Costs	(511,866)
Deferral of Price Differences	(1,320,901)
Interest on Deferrals	(34,311)
Excess Capacity Releases	(2,622,109)
Deferred Exchange Contract	(965,400)
Total Current Year Deferral Activity	$ (7,053,818)
Balance to be amortized	**$ (7,293,216)**

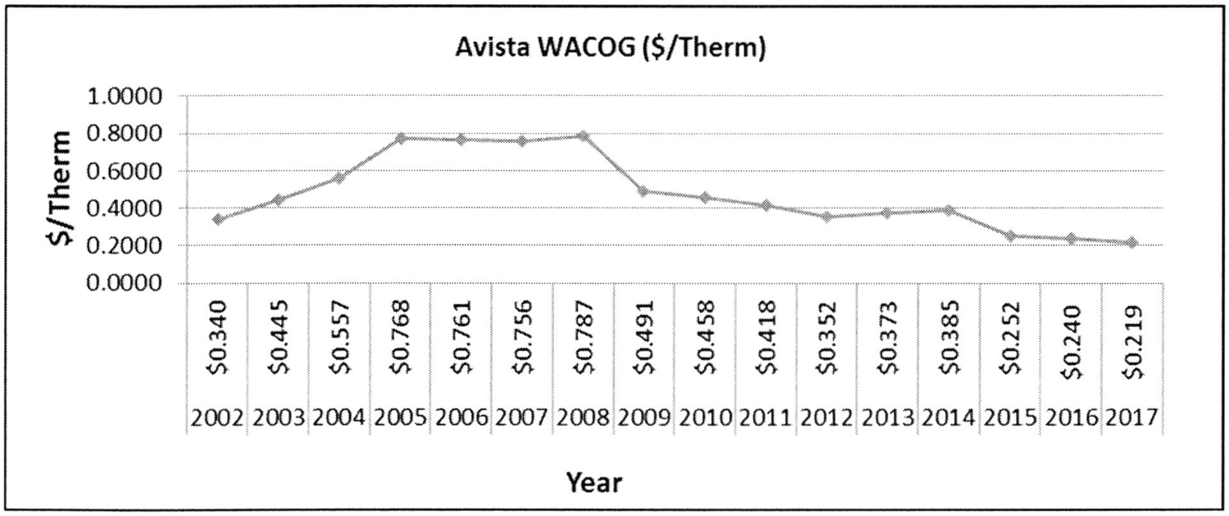
The deferral consists of the difference in the price Avista paid for natural gas and the WACOG established by Order No. 33637 in the previous PGA. The deferral also includes monthly interest charges on deferred balances and excess capacity releases for the benefit of customers. During the 2017 PGA year, Avista's Idaho natural gas customers received a benefit of approximately $2.6 million from capacity releases.

Avista has a Deferred Exchange contract under which it receives natural gas during the summer and then redelivers that natural gas in the winter. Avista charges a fixed per therm price for this service and flows all the benefits through Schedules 150 and 155. The Deferred Exchange contract has a forecasted benefit of $1.43 million for Idaho customers, which reduces the WACOG and is included in the proposed Schedule 150. Avista also allocated an additional $965,400 in benefits in excess of the amount embedded in WACOG for this Deferred Exchange contract. This additional benefit is reflected in the table above.

Weighted Average Cost of Gas (WACOG)

The WACOG includes fuel charges to move gas at the city gate, some variable costs, and benefits associated with the Deferred Exchange contract. It does not include third party gas management fees. In this case, Avista proposes a WACOG of 21.96 cents per therm. The approved WACOG in the Company's last annual PGA was 24.0 cents per therm. Staff Chart 1, below, shows Avista's historical WACOG.[2]

Chart 1: Historical WACOG



Market Fundamentals & Price Analysis

Since approximately 68% of Avista's annual throughput consists of market index purchases, Staff scrutinized 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 $2.14/MMBtu. Staff reviewed the NYMEX/NGX Futures prices at each of the three hubs where Avista purchases gas.[3] Using Avista's estimated volume allocation percentages for these three hubs, Staff believes Avista's projected mainline fuel cost is reasonable.[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).

[2] The WACOG includes contributions to the Gas Research Institute (GRI) of $0.00040 per therm and variable interstate transportation costs.
[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 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).

The EIA Short-Term Energy Outlook states:

- U.S. dry natural gas production is forecast to average 73.6 billion cubic feet per day (Bcf/d) in 2017, a 0.8 Bcf/d increase from the 2016 level. Natural gas production in 2018 is forecast to be 4.9 Bcf/d higher than the 2017 level.
- In September, the average Henry Hub natural gas spot price was $2.98 per million British thermal units (MMBtu), up 8 cents/MMBtu from the August level. Expected growth in natural gas exports and domestic natural gas consumption in 2018 contribute to the forecast Henry Hub natural gas spot price rising from an annual average of $3.03/MMBtu in 2017 to $3.19/MMBtu in 2018. NYMEX contract values for January 2018 delivery that traded during the five-day period ending October 5 suggest that a range of $2.28/MMBtu to $4.63/MMBtu encompasses the market expectation for January Henry Hub natural gas prices at the 95% confidence level.

U.S. EIA Short-Term Energy Outlook Website, www.eia.gov/outlooks/steo/report/natgas.cfm (Release Date of Oct. 11, 2017) (Last visited Oct. 19, 2017).

Based on Staff's review of the market fundamentals and trends, the 2017-2018 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 $0.219 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 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.

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

The Company hedged natural gas in 2016-2017 on both a periodic and discretionary basis. For the next PGA year (November 2017 through October 2018) the Company plans to hedge approximately 46% of its annual load requirements at a fixed price.[5] Under this plan, Avista's hedges through July were executed at a weighted average price of $0.26 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, and then transport that gas to its jurisdiction. When 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 was similar to 2016 at about $2.7 million.

Lost and Unaccounted For Gas

Staff reviewed Avista's LAUF gas volume and compared it to total throughput. Staff believes Avista's overall LAUF gas volume of 0.41% of throughput is reasonable compared to that of other local distribution companies (LDCs).

CUSTOMER NOTICE AND PRESS RELEASE

Avista filed drafts of its press release and customer notice with its Application. The drafts included information for this case (AVU-G-17-03) and another case (AVU-G-17-04). A final copy of the customer notice and press release were filed on September 14, 2017. Staff reviewed both final documents and determined that they comply with Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01.125.

The notice was included with customer bills beginning September 6 and ending October 4. Customers have the opportunity to file comments on or before the Commission's comment deadline of October 20, 2017.

CUSTOMER COMMENTS

As of October 19, 2017, the Commission has received no comments from customers.

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[5] Volumes are comprised of: 1) volumes hedged for a term of one year or less, and 2) volumes from prior multi-year hedges. Application at 3.

STAFF RECOMMENDATION

If approved, Avista's Application will result in a net decrease in Avista's Idaho natural gas revenue by approximately $1.7 million or 2.7%. 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 $0.2190 per therm.
2. Tariff Schedule 155, including the proposed amortization rate of $0.00982 per therm credit to refund approximately $7.3 million to customers.

Respectfully submitted this 20th day of October 2017.

Camille Christen

Camille Christen
Deputy Attorney General

Technical Staff: Kevin Keyt
Donn English
Daniel Klein

i:umisc/comments/avug17.4cckskphdk comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF OCTOBER 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-17-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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