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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 (2018 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-18-04** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Edith Pacillo, Deputy Attorney General, and in response to the Notice of Application and Modified Procedure issued in Order No. 34144 on September 12, 2018, in Case No. AVU-G-18-04, submits the following comments.

BACKGROUND

On August 27, 2018, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application. The PGA is 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. Avista's proposal would not affect Avista's earnings. Avista asked the Commission to process the Application by Modified Procedure and that the new rates take effect November 1, 2018. *Id.* at 5.

Avista is a public utility that distributes natural gas in northern Idaho, Washington, and Oregon. 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. 33953, Case No. AVU-G-17-01. The gas-related cost component of Avista's rates is at issue in this case.

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). Avista's proposal would *decrease* Avista's annual revenue by about $0.6 million (1%). Residential or small commercial customers using an average of 63 therms per month would see their bills decrease by $0.34 per month, which is a rate decrease of about 0.8%. Large General Service (Schedule 111) customers' rates would also *decrease* by about 0.8%. Avista's customers receiving transportation service would also see rates *decrease* by about 2.2%.

Avista proposes to change its PGA rates for its customer classes as follows:

Table 1: Summary of 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	$0.00654	$(0.00918)	$(0.00264)	$(0.00283)	$(0.00547)	**(0.8%)**
Lg. General	111	$0.00654	$(0.00918)	$(0.00264)	$(0.00283)	$(0.00547)	**(0.8%)**
Lg. General	112	$0.00654	$(0.00918)	$(0.00264)	-	$(0.00264)	**(0.3%)**
Interruptible	131	$0.00654	-	$0.00654	-	$0.00654	**(1.7%)**
Transportation	146	-	-	-	$(0.00265)	$(0.00265)	**(2.2%)**

STAFF ANALYSIS

Staff reviewed the Company's Application and accompanying workpapers and supports the Company's proposal to reduce natural gas revenues in Idaho by approximately $0.6 million or 1%. Staff examined Avista's gas purchases for the year, its fixed price hedges, pipeline transportation and storage costs, and estimates of future commodity prices to assess the reasonableness of the proposed changes. Staff also reviewed Avista's jurisdictional allocations and the reasonableness of Avista's Lost and Unaccounted for Gas (LAUF) volumes. Staff verified that Avista's filing will not change the Company'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.

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 *increase* by $0.00654 per therm, from the currently approved $0.16371 (16.37¢) per therm to $0.17025 (17.03¢) per therm.

Avista's demand costs are the costs for interstate transportation and underground storage. The demand portion of Schedule 150 also includes some benefits from the Deferred Exchange contract that are credited back to customers. Avista proposes a $0.00918 per therm decrease in the overall demand rate. The proposed decrease primarily reflects a change in exchange rates between Canadian and U.S. dollars.

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 Schedules 112 or 131) do not participate in the amortization, but receive a one-time rebate or surcharge. Avista proposes to increase the amortization rate rebate in Tariff Schedule 155 by $0.00283 per therm, from the current rebate rate of $0.08862 per therm to a rebate of $0.09145 per therm. This rebate is derived from lower actual natural gas prices than embedded in the WACOG and additional optimization efforts undertaken by Avista, such as capacity releases and the Deferred Exchange contract. A reconciliation of the Schedule 155 deferral balance is shown on Table 2:

Table 2: Deferral Balance Reconciliation

Amortization Balance as of October 31, 2017	$(5,960,168)
Amortization Activity	6,249,486
Interest on Unamortized Balance	(14,432)
Total Unamortized Balance	$274,885
Current Year Deferral Activity	
Deferral Balance as of October 31, 2017	$(4,219,431)
Deferral of Demand Costs	68,758
Deferral of Commodity Price Differences	(825,343)
Interest on Deferrals	(44,935)
Excess Capacity Releases (Nov – June)	(2,198,130)
Deferred Exchange Contract	(979,367)
Residual Unamortized Balance from AVU-G-12-07	(12,233)
Total Current Year Deferral Activity	$(8,210,681)
PGA Total Balance for Amortization	$(7,935,796)
Idaho Earnings Test – Residual Balance	(65,272)
Temporary Tax Benefits	(579,410)
Total Balance to be amortized via Rate Schedule 155	$(8,580,478)

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 monthly interest charges, excess capacity releases - discussed in further detail below, and benefits from the deferred exchange contract.

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 and flows all the benefits through Schedules 150 and 155. Avista's proposed Schedule 150 WACOG includes a forecasted benefit of about $1.47 million for Idaho customers during the year. During the July 2017 through June 2018 deferral period, $1,485,413 flowed to customers, including $979,367 for the months of November 2017 through June 2018. The benefits from the Deferred Exchange Contract are reflected in the deferral activity in the table above.

In Case No. AVU-G-12-07, Order 32769, approximately $1.55 million of the existing PGA deferral balance was approved to offset increases related to the general rate case. This amount was amortized from November 2013 through December 2014 with a residual amount of $12,233 remaining. In consultation with Commission Staff, this residual balance was transferred to the deferral balance in November 2017 and is reflected in the deferral activity in Table 2.

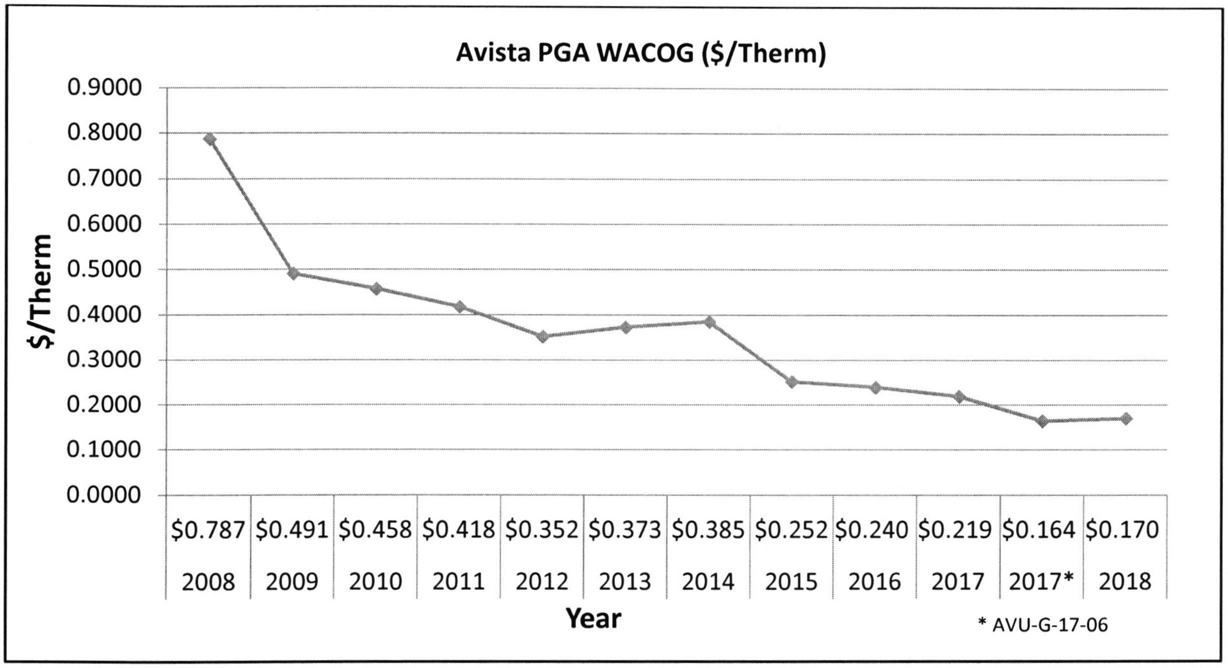
In Case No. AVU-G-15-01, Order No. 33437, an extension to the Idaho Earnings Test Rate Schedule 197 was approved. Earnings sharing was first approved in Case No. AVU-G-12-07 and extended in Case No. AVU-G-14-01. Included in the total for amortization is $65,272, the residual balance remaining from the deferral of earnings sharing from the 2015 general rate case.

Also included in the deferral balance for amortization is $579,410 of temporary (one-time) tax benefits resulting from the 2017 Tax Cuts and Jobs Act in Order No 34070, Case No. GNR-U-18-01, the Commission approved the settlement stipulation that directs the Company to refund the natural gas temporary tax benefit to customers as a credit over one year through the Company's Purchase Gas Adjustment, effective November 1, 2018. These temporary tax benefits consist of the non-plant related excess Accumulated Deferred Federal Income Taxes, the deferral of the January – May 2018 tax benefits, and the impact of the changes in Idaho State income tax rates.

Weighted Average Cost of Gas (WACOG)

The WACOG includes fuel charges to move gas at the city gate, some variable transport costs, Gas Research Institute (GRI) funding, and some benefits associated with the Deferred Exchange contract. It does not include third party gas management fees. In this case, Avista proposes a WACOG of 17.03 cents per therm. This is a slight increase from the approved WACOG in the Company's last PGA adjustment of 16.37 cents per therm. Staff encourages the Company to update its WACOG if gas prices materially deviate. Chart 1 illustrates the trends in Avista's WACOG.

Chart 1: Historical WACOG



Market Fundamentals & Price Analysis

Staff reviewed Avista's projected monthly cost of purchased gas. Avista uses a 30-day historical average of forward prices to forecast the volume-weighted average annual index price and forecasts a cost of $1.50 per dekatherm. Staff reviewed Futures prices at each of the three hubs where Avista purchases gas[1] and believes Avista's cost forecast to be reasonable.

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). [2]

The EIA Short-Term Energy Natural Gas Outlook states:

- EIA forecasts dry natural gas production will average 81.1 Bcf/d in 2018, up by 7.5 Bcf/d from 2017 and establishing a new record high. EIA expects natural gas production will rise again in 2019 to 84.1 Bcf/d.
- EIA expects Henry Hub natural gas spot prices to average $2.96/million British thermal units (MMBtu) in 2018 and $3.10/MMBtu in 2019. NYMEX futures and options contract values for November 2018 delivery that traded during the five-day period ending August 2, 2018, suggest a range of $2.33/MMBtu to

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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] EIA website https://www.eia.gov/outlooks/steo/report/natgas.php

$3.48/MMBtu encompasses the market expectation for November Henry Hub natural gas prices at the 95% confidence level.

Based on Staff's review of the market fundamentals and trends, the 2018-2019 forecasts are consistent, predicting relatively stable near-term gas prices. Staff believes that Avista's cost of its current hedges and estimated cost of forward-looking index purchases are reasonable.

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 can be used to capture the economic benefits of purchasing lower cost natural gas throughout the year and selling it at a later time. Under this plan, Avista's hedges through July were executed at a weighted average price of $0.25 per therm. For the next PGA year (November 2018 through October 2019), the Company plans to hedge approximately 32% of its annual load requirements.

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 U.S. and in Canada, 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 was just over $2.5 million.

Lost and Unaccounted for (LAUF) Gas

Staff reviewed Avista's LAUF gas volume and compared it to total throughput. Staff noticed that the reported LAUF rate for 2017 and 2018 were identical at 0.41% and contacted the Company to confirm the 2018 rate. The Company informed Staff that the 2018 calculation was completed about a month after the PGA filing and is actually 0.37%.

Staff is concerned that Avista did not provide current LAUF calculations with this filing and did not disclose that fact until questioned. Staff believes Avista's corrected overall LAUF gas rate of 0.37% for 2018 may be reasonable given the Company's LAUF rates in recent years. The Company reported LAUF rates of 0.61% in 2015, 0.74% in 2016, and 0.41% in 2017.

Quarterly WACOG and Monthly Deferred Costs Report

Starting in 2015[3], Commission Orders no longer explicitly ordered the Company to provide quarterly WACOG reports and subsequently, the Company stopped providing those reports. Staff finds value in both the quarterly WACOG reports and monthly deferred costs report and recommends that the Commission order the Company resume filing both reports on an ongoing basis.

CUSTOMER COMMENTS, NOTICE, AND PRESS RELEASE

The Company's press release and customer notice were included with its Application on August 27, 2018. Staff reviewed the documents and determined both meet the requirements of Rule 125 of the Commission's Rules of Procedure (IDAPA 31.01.01). The notice was included with bills mailed to customers beginning September 6, 2018 and ending October 4, 2018, providing most customers with a reasonable opportunity to file timely comments with the Commission by the October 10, 2018 deadline.

As of October 9, 2018, no customer comments have been filed.

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[3] Order No. 33402

STAFF RECOMMENDATIONS

After 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 $0.17025 per therm;
2. Tariff Schedule 155, including the proposed amortization rate of $0.09145 per therm credit; and
3. Staff also recommends that the Commission direct the Company to resume filing quarterly WACOG reports and continue filing monthly deferred cost reports with the Commission on an ongoing basis.

Respectfully submitted this 10th day of October 2018.

Edith Pacillo
Deputy Attorney General

Technical Staff: Kevin Keyt
Johnathan Farley
Kathy Stockton

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10th DAY OF OCTOBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-18-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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