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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 (2019 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-19-06** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Matt Hunter, Deputy Attorney General, and in response to the Notice of Application and Modified Procedure issued in Order No. 34436 on September 13, 2019, in Case No. AVU-G-19-06, submits the following comments.

BACKGROUND

On August 23, 2019, Avista Corporation dba Avista Utilities ("Avista" or "Company") 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 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.

Overview of Proposed Rates

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 *increase* Avista's annual revenue by about $3.3 million or about 5.6%. Average residential or small commercial customers using an average of 64 therms per month would *increase* by $2.26 a month.

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

Table 1: Summary of Proposed Rate Changes by Class

Service	Schedule No.	Commodity Change per Therm (a)	Demand Change per Therm (b)	Total Sch. 150 Change (c=a+b)	Amortization Change per Therm (d)	Total Rate Change per Therm (e=c+d)	Percent Change
General	101	$(0.01697)	$(0.00290)	$(0.01987)	$0.05520	$0.03533	**5.2%**
Lg. General	111	$(0.01697)	$(0.00290)	$(0.01987)	$0.05520	$0.03533	**4.9%**
Lg. General	112	$(0.01697)	$(0.00290)	$(0.01987)	-	$(0.01987)	**-2.6%**
Interruptible	131	$(0.01697)	-	$(0.01697)	-	$(0.01987)	**-4.6%**
Transportation	146	-	-		$0.00265	$0.00265	**2.1%**

STAFF ANALYSIS

Staff reviewed the Company's Application and accompanying workpapers and supports the Company's proposal to increase natural gas revenues in Idaho by approximately $3.3M million or 5.6%. *See* Table 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 *decrease* by $0.01697 per therm, from the currently approved $0.17025 per therm to $0.15328 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 slight *decrease* of $0.00290 per therm in the overall demand rate. The proposed decrease is primarily related to changes in exchange rates between Canadian and U.S. dollars, updated demand forecasts, and federal tax reform for Gas Transmission Northwest (GTN). Application at 4.

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 changing the rebate rate in Tariff Schedule 155 from the current rebate rate of $0.09145 per therm to a rebate of $0.03625 per therm, a difference of $0.05520 per therm.

The Company experienced volatility in wholesale gas prices during the 2018-2019 due to several events. In October 2018, the Enbridge pipeline rupture occurred, at a time when Jackson Prairie was down for annual maintenance. The Enbridge pipeline event caused operational flow orders and pipeline entitlements events for Avista. In addition, Avista's service territory experienced much colder than normal temperatures in late February and early March. At that time, Jackson Prairie experienced a compressor failure. These events contributed to higher than normal natural gas prices. For example, the March 2018 gas daily average was $2.29 per dekatherm and the gas daily average for the first few days in March 2019 was $161 per dekatherm. The Company provided an in-depth presentation to the Commission about these events during the semi-annual gas review in June 2019.

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

Table 2: Deferral Balance Reconciliation

Amortization Balance as of October 31, 2018	$(7,255,326)
Amortization Activity	6,782,484
Tax Reform True-up	(7,206)
Interest on Unamortized Balance	(31,504)
Total Unamortized Balance	$(511,552)
Current Year Deferral Activity	
Deferral Balance as of October 31, 2018	$(4,229,300)
Deferral of Demand Costs	291,147
Deferral of Commodity Price Differences	6,389,698
Interest on Deferrals	(31,471)
Excess Capacity Releases	(2,086,925)
Deferred Exchange Contract	(960,600)
Total Current Year Deferral Activity	$(627,451)
PGA Total Balance for Amortization as of June 30, 2019	$(1,139,003)
Forecast Amortization & Deferral through October 31, 2019	(2,023,678)
Forecast Interest through October 31, 2019	(13,927)
Total Balance to be amortized via Rate Schedule 155	$(3,176,608)

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, excess capacity releases discussed in further detail below, and the 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. The benefits from the Deferred Exchange Contract are reflected in the deferral activity in the table above in the amount of $960,600.

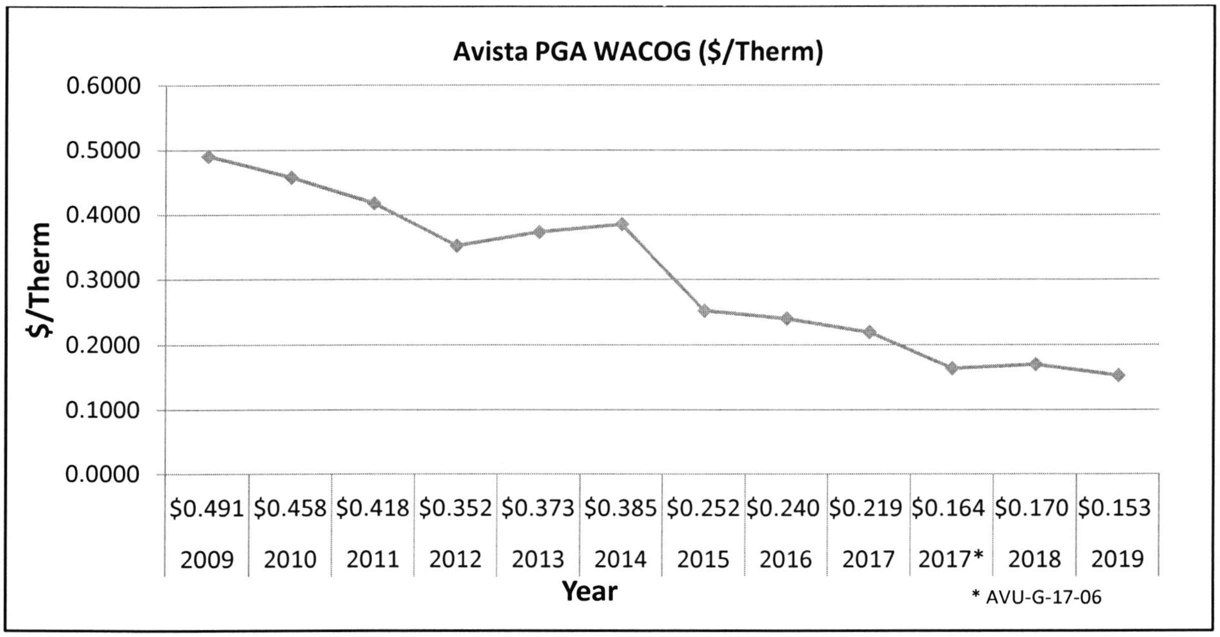
Also included in the deferral balance for amortization is the remainder of temporary tax benefits resulting from the 2017 Tax Cuts and Jobs Act in the amount of $7,206. In Order No. 34070, Case No. GNR-U-18-01, the Commission approved the settlement stipulation that directs the Company to refund the natural gas temporary tax benefit to customers as a credit over one year through the Company's Purchase Gas Adjustment, effective November 1, 2018.

For the calculation of the PGA amortization rate, Avista projects natural gas deferrals and amortization collections through October 31, 2019, as well as the interest during that time period and includes this calculation with the total balance to be amortized as shown above. Avista estimates that the balance for amortization as of October 31, 2019 will be $(3,176,608) and calculates a tariff rate of $(0.03625) per therm for the period of November 1, 2019 through October 31, 2020.

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 $0.15328 per therm. This is a slight decrease from the approved WACOG in the Company's last PGA of $0.17025 cents per therm. Staff encourages the Company to update its WACOG if gas prices materially deviate. Chart No. 1 shows Avista's historical WACOG.

Chart 1: Historical WACOG



Market Fundamentals & Price Analysis

Because a large portion of Avista's annual throughput consists of market index purchases (approximately 57%), 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 cost of $1.58 per dekatherm ($0.158 per therm). 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 91.0 Bcf/d in 2019, up by 7.6 Bcf/d from 2018. EIA expects monthly natural gas production to grow in late 2019 and then decline slightly during the first quarter of 2020 as the lagged effect of low prices in the second half of 2019 reduces natural gas-directed drilling. However, EIA forecasts that growth will resume in the second quarter of 2020, and natural gas production in 2020 will average 92.5 Bcf/d.
>
> - The Henry Hub natural gas spot price averaged $2.37/million British thermal units (MMBtu) in July, down 3 cents/MMBtu from June. However, by the end of the month, spot prices had fallen below $2.30/MMBtu. Based on this price movement and EIA's forecast of continued strong growth in natural gas production, EIA lowered its Henry Hub spot price forecast for the second half of 2019 to an average of $2.36/MMBtu. In the July STEO, EIA expected prices to average $2.50/MMBtu during this period. EIA expects natural gas prices in 2020 will increase to an average of $2.75/MMBtu. EIA's natural gas production models indicate that rising prices are required in the coming quarters to bring supply into balance with rising domestic and export demand in 2020.

Based on Staff's review of the market fundamentals and trends, the 2019-2020 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.

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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 Hub price.
[2] EIA website https://www.eia.gov/outlooks/steo/report/natgas.php

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 2019 were executed at a weighted average price of $0.171 per therm. For the next PGA year (November 2019 through October 2020), the Company plans to hedge approximately 43% 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 supply basins, both in the U.S. and in Canada, and then transport that gas to its service territory. 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's total excess capacity release revenue this year for Idaho was just over $2 million.

Lost and Unaccounted for (LAUF)[3] Gas

Staff reviewed Avista's LAUF gas rate and compared it to previous years. The Company reported a LAUF gas rate of 1.29%, which is higher than previous years. Table 3 shows a five-year view of LAUF gas rates. Staff notes that the five-year average is 0.68%.

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[3] The American Gas Association describes unaccounted for natural gas in the utility system as follows: At a city gate, natural gas is transferred from an interstate or intrastate pipeline to a local natural gas utility. At that moment, some utilities measure the volume of gas using highly sophisticated technology that is able to quickly and precisely take into account a variety of factors, including temperature and pressure. The utility reports the volume of gas sold to customers as represented on their bills. The difference between the city-gate measurement and the volume of gas sold is treated as unaccounted-for gas by regulators, who build a form of reimbursement for this gas into the utility's rate structure.

Table 3: LAUF Gas Rate History

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	5 Year Average
LAUF Gas Rates	0.61%	0.74%	0.41%	0.37%	1.29%	0.68%

Staff asked the Company about the increased LAUF rate. The Company responded to Staff's questions with the following explanation:

> The way the Company manages its data is the primary factor why Lost and Unaccounted For (LAUF) numbers can deviate from year to year. The LAUF report is comprised of two sets of data: 1) actual calendar delivered pipeline volumes at the city gate, and 2) billed revenue volumes from end use customers. Various factors including accounting adjustments, timing differences, system changes, meter family failures/change-outs, etc. can have an effect on each set of data. As such, periodically it is possible to see numbers which deviate from previous years.
>
> Standard testing for meters is within a +/- 2% deviation. The Company's natural gas distribution folks keep a close eye on meters to ensure we continue to be and stay within that tolerance.
>
> The Company will look into the LAUF report for the 12 months ending June 30, 2019 as part of an effort to streamline the process related to this calculation. An update will be provided in our next PGA filing.

Staff believes that the Company's explanation attributing the increase to timing and reporting of LAUF data is reasonable. Additionally, the Company found no anomalies in meter testing and continues to operate within industry standards of +/- 2% deviation. However, Staff will continue to monitor the LAUF rate to see if the increasing trend continues.

CUSTOMER COMMENTS, NOTICE, AND PRESS RELEASE

The Company's press release and customer notice were included with its Application on August 23, 2019. 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 9, 2019 and ending October 7, 2019. The Commission set a comment deadline of October 9, 2019. Customers whose bills will be mailed on October 7, 2019, will not have received their notices or had adequate time to submit comments before the comment deadline. Customers must have the opportunity to file comments and have those comments considered by the Commission. Staff recommends that the Commission accept late-filed comments by customers. As of October 9, 2019, one comment had been filed in opposition to the Company's proposed increase.

STAFF RECOMMENDATIONS

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

1. Approve Avista's proposed Tariff Schedule 150, including the proposed WACOG of $0.15328 per therm;
2. Approve Avista's proposed Tariff Schedule 155, including the proposed amortization rate of $(0.03625) per therm;
3. Direct the Company to continue filing quarterly WACOG reports and continue filing monthly deferred cost reports with the Commission on an ongoing basis; and
4. Accept late-filed customer comments.

Respectfully submitted this 9th day of October 2019.

Matt Hunter
Deputy Attorney General

Technical Staff: Rick Keller
Kevin Keyt
Kathy Stockton
Curtis Thaden

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9th DAY OF OCTOBER 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-19-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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