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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 (2020 PURCHASED GAS COST ADJUSTMENT)	))))))	**CASE NO. AVU-G-20-04** **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, submits the following comments.

BACKGROUND

On June 30, 2020, Avista Corporation dba Avista Utilities ("Avista") 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 on to customers through an increase or decrease in rates.

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 $0.4 million or about 0.7%. Average residential or small commercial customers using an average of 64 therms per month would see bills *increase* by $0.31 or 0.6% per month.

The effect of the proposed changes on a customer class is shown in Table No. 1 below:

Table No. 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	$0.00955	$(0.00345)	$0.00610	$(0.00129)	$0.00481	**0.7%**
Lg. General	111	$0.00955	$(0.00345)	$0.00610	$(0.00129)	$0.00481	**0.7%**
Lg. General	112	$0.00955	$(0.00345)	$0.00610	-	$0.00610	**0.8%**
Interruptible	131	$0.00955	-	$0.00955	-	$0.00955	**2.5%**
Transportation	146	-	-	-	-	-	**0.0%**

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 $0.4 million or 0.7%. *See* Table No. 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 allocation 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 amortizes 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 slightly by $0.00955 per therm, from the currently approved $0.15328 per therm to $0.16283 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 $0.00345 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 new Canadian Pipeline rates that went into effect June 1, 2020. Application at 4. In this case, Avista proposed to decrease demand costs by $0.00345 per therm, from the currently approved $0.09350 to $0.09005 per therm.

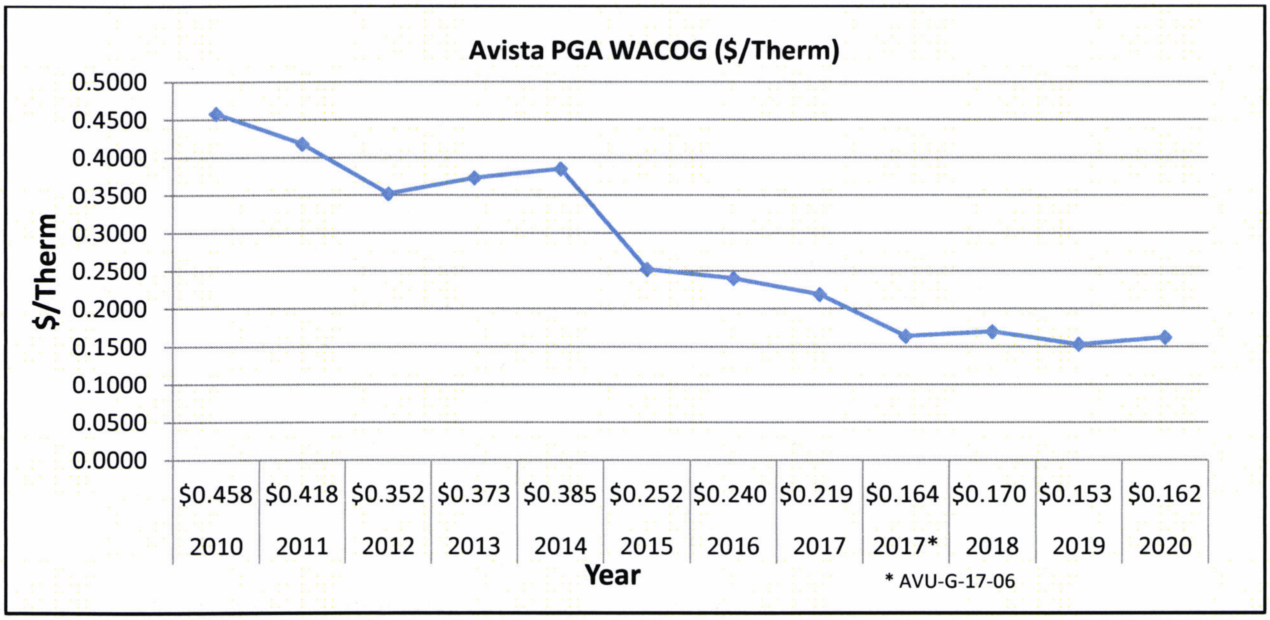
The new proposed total for Tariff Schedule 150 for customers on Schedules 101, 111, and 112—schedules that have both the demand and commodity charge—is $0.25288 per therm. For customers on Schedules 131 and 132—schedules that only have commodity charges—the new Tariff Schedule 150 is $0.16283 per therm.

Weighted Average Cost of Gas ("WACOG")

The WACOG includes fuel charges to move gas to 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 $0.16238 per therm. This is an increase of approximately 6.2% from the current approved WACOG of $0.15328 cents per therm. Staff encourages the Company to update its WACOG if gas prices materially deviate from the proposed amount.

Chart No. 1 shows Avista's historical WACOG. After a steady trend of declining gas cost from 2010 until 2017, the cost of gas appears to be more stable, averaging $0.162 per therm since 2017.

Chart No. 1: Historical WACOG



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 $0.03625 per therm to a rebate of $0.03754 per therm, a difference of $0.00129 per therm. Due to the increase in the rebate, general and large general service customers will receive a $0.00129 per therm decrease to their current bills under this schedule.

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. Customers received a benefit of $839,588 during the PGA year from the Deferred Exchange Contract as shown in Table No. 2 below.

In Order No. 34712, Case No. AVU-G-20-02, the Commission approved the petition and agreement between the Company and Clearwater Paper Corporation to reduce the amount of the penalty resulting from the Enbridge-owned West Coast Pipeline rupture in October of 2018. Staff verified that the full amount of the penalty was properly recorded to the deferral balance during the month of May 2019 and that the deferral balance was updated in March 2020 to correctly reflect the amount of the penalty agreed upon by the parties and approved by the Commission.

For the calculation of the PGA amortization rate, Avista includes the projected natural gas deferrals and amortization collections through October 31, 2020, including any interest, to derive the total balance to be amortized as shown on Table No. 2 below. Avista estimates that the balance for amortization as of October 31, 2020 will be a rebate of $3,363,465 and calculates a tariff rate of $0.03754 rebate per therm to customers on Schedules 101 and 111 for the period of November 1, 2020 through October 31, 2021.

A reconciliation of the Schedule 155 deferral balance is shown in Table No. 2:

Table 2: Deferral Balance Reconciliation

Amortization Balance as of October 31, 2019	$	(2,693,903)
Amortization Activity		2,493,192
Interest on Unamortized Balance		(14,955)
Total Unamortized Balance	$	(215,666)
Current Year Deferral Activity		
Deferral Balance as of October 31, 2019	$	-
Deferral of Demand Costs		396,236
Deferral of Commodity Price Differences		1,788,086
Interest on Deferrals		(6,300)
Excess Capacity Releases		(1,938,269)
Deferred Exchange Contract		(839,588)
Total Current Year Deferral Activity	$	(599,835)
PGA Total Balance for Amortization as of May 31, 2020	$	(815,501)
Forecast Amortization & Deferral through October 31, 2020		(2,533,071)
Forecast Interest through October 31, 2020		(14,893)
Total Balance to be amortized via Rate Schedule 155	$	(3,363,465)

Market Fundamentals & Price Analysis

Because a large portion of Avista's annual throughput consists of market index purchases (approximately 60%), 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 $1.77 per dekatherm ($0.177 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[3] states:

- U.S. dry natural gas production set an annual record in 2019, averaging 92.2 Bcf/d. EIA forecasts dry natural gas production will average 88.7 Bcf/d in 2020, with monthly production falling from its monthly average peak of 96.2 Bcf/d in November 2019 to 82.7 Bcf/d by April 2021, before increasing slightly. Natural gas production declines the most in the Permian region, where EIA expects low crude oil prices will reduce associated natural gas output from oil-directed rigs. EIA's forecast of dry natural gas production in the United States averages 84.0 Bcf/d in 2021. EIA expects production to begin rising in the second quarter of 2021 in response to higher natural gas and crude oil prices.

- In July, the Henry Hub natural gas spot price averaged $1.77 per million British thermal units (MMBtu). EIA expects natural gas prices will generally rise through the end of 2021, but the sharpest increases will be during this fall and winter when they rise from an average of $2.11/MMBtu in September to $3.14/MMBtu in February. EIA expects that rising demand heading into winter, combined with reduced production, will cause upward price pressures. EIA forecasts that Henry Hub natural gas spot prices will average $2.03/MMBtu in 2020 and $3.14/MMBtu in 2021.

Based on Staff's review of the market fundamentals and trends, the 2020-2021 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's Hub price.
[2] *Short-Term Energy Outlook: Natural Gas*, U.S. Energy Information Administration (Sep. 9, 2020), https://www.eia.gov/outlooks/steo/report/natgas.php.
[3] *Id.*

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 later. Under this plan, Avista's hedges through July were executed at a weighted average price of $0.171 per therm. For the next PGA year (November 2020 through October 2021), the Company plans to hedge approximately 40% 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. When Avista has surplus capacity on the pipelines that serves its service territory, it can be sold to other pipeline users at the highest price available. The revenue from the sale of surplus capacity is credited to customers through the PGA. Avista's total excess capacity release revenue this year for Idaho was approximately $1.9 million.

Lost and Unaccounted for ("LAUF")[4] Gas

Staff reviewed Avista's LAUF gas rate and compared it to previous years. The Company reported a LAUF gas rate of -1.50% (found gas) which is lower than previous years. Staff asked

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[4] 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.

Unaccounted for Natural Gas in the Utility System, American Gas Association, https://www.aga.org/policy/state/natural-gas-state-profiles/state-info/unaccounted-for-natural-gas-in-the-utility-system/.

the Company to provide supporting LAUF workpapers and a reconciliation of LAUF numbers used in the PGA Report and numbers reported to the Pipeline and Hazardous Material Safety Administration (PHMSA). The following table shows a five-year view of LAUF gas. The five-year average LAUF rate is 0.22%.

Table No. 3: LAUF Rates and Reconciliation

Year	Delivery	Revenue	Loss +/-	% of Purchase	PGA Report	PHMSA Report
2016	120,958,577	120,058,585	899,992	0.74	0.74	0.74
2017	147,097,624	146,490,005	607,619	0.41	0.41	0.41
2018	134,637,626	134,139,456	498,170	0.37	0.37	0.37
2019	143,375,963	141,549,516	1,826,447	1.27	1.27	1.29
2020	154,340,500	156,662,982	(2,322,482)	(1.50)	(1.50)	N/A[5]
5 Year Average	140,082,058	137,780,109	301,949	0.22	0.22	

The Company explained that the discrepancy in 2019 PGA and PHMSA numbers was due to the PHMSA LAUF gas being divided by revenue instead of volume of gas delivered, which resulted in reporting a number 0.02% greater than the true value. Staff believes that the Company's explanation of the reporting discrepancy is reasonable and will continue to monitor the reported LAUF rates.

CUSTOMER COMMENTS, NOTICE, AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Each document addresses three cases: this case (AVU-G-20-04), the natural gas Fixed Cost Adjustment (AVU-G-20-5), and the electric Fixed Cost Adjustment (AVU-E-20-06). Staff reviewed the documents and determined that both meet the requirements of Rule 125 of the Commission's Rules of Procedure, IDAPA 31.01.01.125. The notice was included with bills mailed to customers between July 6 and August 3, 2020, providing customers with a reasonable

[5] The PHMSA report for 2020 is pending submittal.

opportunity to file timely comments with the Commission by the October 6, 2020, deadline. As of October 5, 2020, no customer comments had been filed.

STAFF RECOMMENDATIONS

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

1. Approve Avista's proposed Tariff Schedule 150, including the proposed WACOG of $0.16283 per therm and demand charge of $0.09005 per therm, for a total of $0.25288 per therm;
2. Approve Avista's proposed Tariff Schedule 155, with the proposed amortization rate of $0.03754 per therm; and
3. Direct the Company to continue filing quarterly WACOG reports and monthly deferred cost reports with the Commission on an ongoing basis.

Respectfully submitted this 6th day of October 2020.

Matt Hunter
Deputy Attorney General

Technical Staff: Kathy Stockton
Kevin Keyt
Rick Keller
Curtis Thaden

i:umisc:comments/avug20.4mhkskkrkct comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6th DAY OF OCTOBER 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-20-04, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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SECRETARY