

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF AVISTA UTILITIES FOR AUTHORITY) CASE NO. AVU-G-09-05
TO CHANGE ITS NATURAL GAS RATES)
AND CHARGES (2009 PURCHASED GAS)
COST ADJUSTMENT).) ORDER NO. 30937
)**

On September 15, 2009, Avista Corporation dba Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by approximately \$14.7 million. Application at 1. The PGA mechanism is used to adjust rates to reflect annual changes in Avista's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs. Avista's earnings will not be decreased as a result of the proposed changes in prices and revenues. On September 29, 2009, the Commission issued a Notice of Application and Notice of Modified Procedure setting an October 16, 2009, deadline for comments. Staff was the only party to file comments. After reviewing the comments and the record in this case, the Commission approves the Company's Application as modified and more fully set forth below.

THE APPLICATION

The Company states that if the proposed changes are approved its annual revenue will decrease by approximately \$14.7 million or 17.8%. The average residential or small commercial customer using 66 therms per month will see a decrease of \$12.74 per month.

The Company states that it purchases natural gas for customer usage and transports this gas over various pipelines for delivery to customers. The Company defers the effect of timing differences due to implementation of rate changes and differences between the Company's actual Weighted Average Cost of Gas (WACOG) purchased and the WACOG embedded in rates. The Company states that it also defers the revenue received from the release of its storage capacity as well as various pipeline refunds or charges and miscellaneous revenue received from gas-related transactions.

Avista proposes decreasing the WACOG from the currently approved \$0.760 per therm to \$0.491 per therm. The Application asserts that wholesale gas prices have fallen dramatically since July 2008 and the Company has been hedging gas on a periodic basis

throughout 2009 for the coming PGA year. The Company states that approximately 64% of its estimated annual load requirements for the PGA year will be hedged at a fixed price comprised of: (1) 42% of volumes hedged for a term of one year or less; (2) 10% of prior multi-year hedges; and (3) 12% from underground storage. The Company states that through August 2009, most of the planned hedge volumes for the PGA year have been executed at a weighted average price of \$0.582 per therm.

The demand costs included in the Company's Application primarily represent the costs of pipeline transportation to the Company's system. Avista's proposal includes essentially no change in the demand cost included in rates. Application at 4.

The Company is also proposing a change in the present amortization rate that is used to refund or surcharge customers the difference between actual gas costs and projected gas costs from the last PGA filing through the past year. The present amortization rate for firm sales customers is a \$0.1580 per therm refund. Avista is proposing a \$0.0760 per therm increase in the amortization rate for firm sales customers. In order to mitigate a potential 2010 PGA increase, the Company proposes to refund the deferral balance over a two-year period, rather than one. Application at 4.

Avista asserts that it has notified customers of its proposed decrease in rates by posting a notice at each of the Company's district offices in Idaho, by means of a press release distributed to various informational agencies, and by separate notice to each of its Idaho gas customers via a bill insert. The Company requests that this matter be handled under Modified Procedure pursuant to Rules 201-210 of the Commission's Rules of Procedure.

THE COMMENTS

Given that the Company has hedged 64% of its estimated load requirements for the upcoming year at fixed prices, and it estimates the additional volumes to be purchased at \$0.478 per therm, Staff recommended the Commission accept the Company's proposed \$0.49093 WACOG. However, given the volatility of the current market, Staff recommended that the Commission reserve the right to reopen the case and reevaluate any approved tariffs if the proposed WACOG materially changes.

In this PGA filing the Company proposed to refund the deferral balance over a two-year period. The Company believes that the substantial WACOG reduction in this filing presents a unique opportunity to mitigate future PGA increases through a two-year refund of the deferral

balance. Staff believes that the risk of higher gas costs for customers next year under a single year amortization is diminished by the continued growth in the Schedule 155 deferral balance. Staff also cites the potential for a lower WACOG than that included by the Company in this case. Consequently, Staff recommended that the Commission amortize the deferral credit balance to customers over one year. In doing so, Staff recommended that the Commission accept a proposed decrease in the credit of 2.008 cents per therm for customers on tariff Schedules 101 and 111, and a decrease in the credit of 0.433 cents per therm for customers on tariff Schedule 131.¹

DISCUSSION

We have reviewed the record for this case, including the Application and comments. The Commission has jurisdiction over Avista Corporation, a public utility, its Application for authority to change rates and prices, and the issues involved in this case pursuant to Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502, along with the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

The Commission is required to establish just, reasonable, and sufficient rates for utilities subject to our jurisdiction. *Idaho Code* § 61-502. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage and other related costs of acquiring and delivering natural gas. The Company's earnings are not increased from changes in prices and revenues resulting from the annual PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

A reduction in demand for natural gas coupled with an abundance of natural gas supplies have driven down natural gas prices. In addition, Avista follows a flexible, diversified natural gas purchasing plan and effectively manages its underground natural gas storage facility. These actions allow Avista to provide stable and low prices to its customers. Consequently, we find it reasonable to decrease the approved WACOG from \$0.75984 per therm to \$0.49093 per therm. However, because it is understandably difficult to estimate the risk margin built into forward prices in the current market, the Commission directs the Company to promptly file an application to amend its WACOG should gas prices materially deviate from the presently

¹ This results in a decrease to the Company's overall revenue by \$18,881,959 or 22.90% as opposed to the Company's proposal of \$14,699,479 or 17.83%.

approved \$0.49093 per therm. Moreover, the Commission reserves the right to reopen this case and reevaluate the approved tariffs if the WACOG materially changes. *Idaho Code* § 61-624.

Typically, when a refund is due to customers, the deferral balance is amortized over one year. However, in this PGA filing the Company proposed to refund the balance over a two-year period. In light of the current economic realities facing the utility's customers, the Commission finds it reasonable and appropriate to amortize the deferral credit balance to customers over one year.

ORDER

IT IS HEREBY ORDERED that Avista's Application is approved as modified herein. The Company shall decrease its annualized revenues and establish a Weighted Average Cost of Gas of \$0.49093 per therm. The Company shall file conforming tariffs to be effective November 1, 2009.

IT IS FURTHER ORDERED that Avista amortize the deferral balance and credit customers over one year. The Commission approves a decrease in the credit of 2.008 cents per therm for customers on tariff Schedules 101 and 111, and a decrease in the credit of 0.433 cents per therm for customers on tariff Schedule 131. This results in a decrease to the Company's annual overall revenue by \$18,881,959 or 22.90%.

IT IS FURTHER ORDERED that Avista promptly file an application to amend its WACOG should gas prices materially deviate from the presently approved \$0.49093 per therm.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* §§ 61-626 and 62-619.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th
day of October 2009.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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