

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 12, 2017

REGULAR X CONSENT _____ EFFECTIVE DATE November 1, 2017

DATE: September 29, 2017

TO: Public Utility Commission

FROM:  Lisa Gorsuch

THROUGH:  Jason Eisdorfer and  JP Batmale

SUBJECT: AVISTA UTILITIES: (Docket No. UG 339/Advice No. 17-02-G) Reflects changes in the cost of purchased gas and the amortization rate for the Purchased Gas Adjustment (PGA) balancing account.

STAFF RECOMMENDATION:

Staff recommends approval of Avista Corporation dba Avista Utilities' (Avista or Company) 2017 annual Purchase Gas Adjustment (PGA) clause filings, and recommends that the Company's proposed tariff sheets in Docket No. UG 339/Advice No. 17-02-G be approved with an effective date of November 1, 2017.

DISCUSSION:

Issue

Whether the Commission should approve Avista's 2017 annual PGA along with the tariff sheet revisions proposed by the Company in Docket No. UG 339/Advice No. 17-02-G.

Applicable Law

ORS 757.210 authorizes the Commission to establish the rates charged by public utilities. ORS 757.259(5) authorizes the Commission to allow a utility to amortize costs deferred under an automatic adjustment clause. The amortization is subject to the Commission's determination the costs were prudently incurred. Under ORS 757.259(6), the overall average rate impact of the amortizations authorized under ORS 757.259 in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year. ORS 757.259(7) allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the

circumstances. OAR 860-027-0300 sets forth additional requirements and procedures related to deferred accounting.

To determine prudence the Commission reviews the Company's actions, based on all that the Company knew or should have known at the time, to determine whether the actions were reasonable and prudent in light of the circumstances, which then existed.¹

The PGA mechanism was originally established by Order No. 89-1046 to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings through open-docket UM 1286.² Order No. 14-238 is the most recent of these orders, which set out the Commission's procedures and requirements concerning the processing of PGA filings.

Discussion and Analysis

On July 28 and September 15, 2017, Avista submitted its annual PGA filings, which respectively comprise its initial filing (Initial 2017 PGA Filing)³ and its supplemental filing (Supplemental 2017 PGA Filing).⁴ In aggregate, the filings are commonly referred to as the 2017 PGA filing (2017 PGA Filing). The 2017 PGA Filing comprises two parts: a forward-looking part (Projected Purchased Gas Cost for the 2017-2018 Gas Year) and a backward-looking part (True-Up of the 2016-2017 Gas Year).

The Projected Purchased Gas Cost for the 2017-2018 Gas Year projects the costs of natural gas for the upcoming gas year (i.e., 2017-2018 Gas Year)⁵ and results in the new rates set forth in Tariff Sheet 461.⁶ The True-Up of the 2016-2017 Gas Year trues up the costs of natural gas in the previous gas year (2016-2017 Gas Year)⁷ by comparing the amount collected from customers in that year with the actual costs incurred by the Company in the same year. Any over- or under-collection from

¹ *In re PacifiCorp*, Order No. 12-493.

² PGA Guidelines were acknowledged by the Commission in Docket No. UM 1286, Order No. 09-248, on June 23, 2009. The Guidelines in Docket No. UM 1286 have been modified three different times since they were first acknowledged by the Commission, in Order No. 10-197, in Order No. 11-196, and in Order No. 14-238.

³ See <http://edocs.puc.state.or.us/efdocs/UAA/ug339uaa92255.pdf>

⁴ See <http://edocs.puc.state.or.us/efdocs/UBA/ug339uba84359.pdf>

⁵ The 2016-2017 Gas Year covers the period beginning on November 1, 2017, and ending on October 31, 2018.

⁶ Tariff Sheet 461 is titled "Purchased Gas Cost Adjustment Provision."

⁷ The 2016-2017 Gas Year covers the period beginning on November 1, 2016, and ending on October 31, 2017. However, per page 10 of Appendix A to Order No. 14-238 in Docket No. UM1286 (See: <http://apps.puc.state.or.us/orders/2014ords/14-238.pdf>), all deferrals to be amortized into rates will be based on June deferral balances plus interest for July-October, and the deferrals that occur after June will be carried forward to the next PGA period.

customers in the 2016-2017 Gas Year, together with any over- or under-collection from previous years,⁸ is given back (in the case of over-collection) or surcharged (in the case of under-collection) to customers in the upcoming gas year. The True-Up of the 2016-2017 Gas Year results in the new rates set forth in Tariff Sheet 462.⁹

Projected Purchased Gas Cost for the 2017-2018 Gas Year (Tariff Sheet 461 or Rate Schedule 461).

The Projected Purchased Gas Cost for the 2017-2018 Gas Year comprises two rate components: 1) the commodity component rate and 2) the capacity or demand component rate. The rates for those components in \$ per therm are represented in Table 1.

Table 1: Projected Purchased Gas Cost for 2017-2018
 (in \$/Therm or as noted otherwise)

Item		Current Rate 2016-2017 Gas Year	Proposed Rate 2017-2018 Gas Year	Change
Commodity	(A)	0.24529	0.24036	-0.00493
Demand	(B)	0.19759	0.18539	-0.01220
Total Gas Cost	(C = A+B)	0.44288¹⁰	0.42575¹¹	-0.01731

The commodity component of the weighted average cost of gas proposed for the 2017-2018 is decreasing slightly by \$0.493 per therm, due to the continued high natural gas production levels and an abundance of natural gas in storage, as shown above in Table 1.

⁸ Any over-collection or under-collection from previous years is the result of the fact that actual volumetric sales of natural gas will always be different from forecasted volumetric sales. Since amortizations are intended to be recovered in volumetric forecasted sales, a remaining balance will always be present.

⁹ Tariff Sheet 462 is titled "Gas Cost Rate Adjustment."

¹⁰ See the Supplemental Tenth Revision Sheet 461 issued on September 9, 2016, "Rate" section (See https://www.avistautilities.com/services/energypricing/or/curgas/Documents/OR_461.pdf approved by the Public Utility Commission of Oregon in Order No. 16-388 of Docket No. UG 314 at <http://apps.puc.state.or.us/orders/2016ords/16-388.pdf>

¹¹ See the Supplemental Ninth Revision Sheet 461 attached to Avista's Supplemental 2017 PGA Filing, "Rate" section, at <http://edocs.puc.state.or.us/efdocs/UBA/ug339uba84359.pdf>.

The proposed demand component reflects a decrease of approximately \$0.01220 per therm.^{12,13} This decrease is largely due to new transportation rates on Williams Northwest Pipeline.¹⁴

Avista's 2017 PGA Filing meets the PGA Filing Guidelines and the Natural Gas Portfolio Guidelines.¹⁵ Avista has demonstrated its adherence to these Guidelines with regard to natural gas supplies and financial hedges.¹⁶ Staff's conclusions were supported by the Company's comprehensive work papers and by review and discussion as part of the quarterly meetings.

¹² Demand costs reflect the cost of pipeline transportation to the Company's system, as well as fixed costs associated with natural gas storage.

¹³ Schedule 440 Interruptible Customers is the rate schedule to which this rate does not apply. Interruptible customers are customers under the Interruptible Natural Gas Schedule 440. This rate schedule is applicable to commercial and industrial customers who are subject to interruptions in capacity and supply. By choosing to be interruptible, the Company does not secure firm interstate pipeline capacity for these customers. As a result, customers served on this rate schedule do not pay transportation or demand charges.

¹⁴ The Williams Northwest Pipeline Settlement agreement is pending approval before the Federal Energy Regulatory Commission (FERC). The new rates will become effective on January 1, 2018, and on October 1, 2018.

¹⁵ The "PGA Filing Guidelines" and "Natural Gas Portfolio Development" were acknowledged by the Commission in Order No. 09-248 and corrected in Order No. 09-263. Modifications to these guidelines were acknowledged by the Commission in Order No. 10-197, Order No. 11-196, and Order No. 14-238 in Docket No. UM 1286.

¹⁶ Accepted "best practices" for the purchase of natural gas supply by local distribution companies (LDCs) is portfolio construction that balances the objectives of reliability, cost, and price volatility using the tools of diversity, flexibility, and balance. The "Natural Gas Portfolio Development Guidelines" (Portfolio Guidelines) implement these "best practices" for Oregon LDCs. The Portfolio Guidelines require gas utilities to include certain information related to their gas supply portfolio with their annual PGA filing. This information allows the Commission to determine the prudence of the utility's costs. Staff's analysis of and conclusions regarding Avista's natural gas supply portfolio and related purchasing strategies and actions are based on the Portfolio Guidelines in Docket No. UM 1286.

True-Up of the 2016-2017 Gas Year (Tariff Sheet 462 or Rate Schedule 462)

Table 2: True-Up of the 2016-2017 Gas Year¹⁷
 (in \$/Therm or as noted otherwise)

Item		Current Rate	Proposed Rate	Change
Commodity Amortization	(D)	-0.08273	-0.05278	0.02995
Demand Amortization	(E)	0.01251	-0.02580	-0.03831
Total Amortization	(F=D+E)	-0.07022¹⁸	-0.07858¹⁹	-0.00836

As for the commodity amortization, the new rebate rate of \$0.05278 per therm reflects a refund of approximately \$4.6 million, which comprises approximately \$4.6 million²⁰ of over-collections in the period from November 2016 to June 2017 and approximately \$36,000²¹ of over-collections from prior years. The \$4.6 million figure is after accounting for the commodity cost variance sharing between the Company and customers as required by Order No. 08-504 in Docket No. UM 1286.²² For the reasons mentioned previously in this memo,²³ actual wholesale natural gas prices were lower than the level approved in the Company's 2016 PGA.

As for the Demand Amortization portion, the Company is currently surcharging \$0.01251 per therm to customers (except Rate Schedule 440).²⁴ The Company proposes to reduce the amount to be charged to customers to -\$0.02580 per therm. The new rate reflects a rebate of approximately \$2.1 million, which comprises approximately

¹⁷ Positive numbers represent surcharges; negative numbers or numbers in parentheses represent refunds.

¹⁸ See the Supplemental Sixth Revision Sheet 462 issued on September 9, 2016, "Rate" section, approved by the Public Utility Commission of Oregon in Order No. 16-388 of Docket No. UG 314 at: file:///C:/Users/lgorsuc/Downloads/OR_462.pdf

¹⁹ See the Supplemental Fifth Revision Sheet 462 attached to Avista's 2017 PGA Filing, <http://edocs.puc.state.or.us/efdocs/UAA/ug339uaa92255.pdf>.

²⁰ See page 7 of 29 in Avista's workpapers filed with its Supplemental 2017 PGA Filing (i.e., row "2" Column "I").

²¹ See page 7 of 29 in Avista's workpapers filed with its Supplemental 2017 PGA Filing (i.e., row "1" Column "I").

²² For the 2016-2017 Gas Year, the Company elected a 90/10 variance sharing on July 13, 2017. See <http://edocs.puc.state.or.us/efdocs/HAD/um1286had141811.pdf>

²³ See the "commodity" discussion part of this memo.

²⁴ Schedule 440 refers to Interruptible Service Customer. This rate schedule is applicable to commercial and industrial customers who are subject to interruptions in capacity and supply. By choosing to be interruptible, the Company does not secure firm interstate pipeline capacity for these customers. As a result, customers served on this rate schedule do not pay transportation or demand charges.

\$2,034,041²⁵ of an over-collection in the period from November 2016 to June 2017 and an over-collection of \$108,720²⁶ from previous years.

Three Percent Test

Pursuant to ORS 757.259 and OAR 860-027-0300, the annual average rate impact of the amortizations authorized under the statutes may not exceed three percent of the natural gas utility's gross revenues for the preceding calendar year unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. As shown on Attachment C of this public meeting memo, the resulting annual average rate impact from the PGA amortization and three other filings²⁷ is -2.9 percent²⁸ and falls within the requirements of the statute.

Table 3: Overall Revenue and Rate Impact
 (in \$ or as noted otherwise)

Schedule	Description	Total Revenues at Current Rates ^{29, 30}	Revenue Decrease ³¹	Change (%) ³²
410	Residential	60,479,089	-1,075,410	-1.8
420	General	27,258,404	-582,206	-2.1
424	Large General	2,419,566	-89,232	-3.7
440	Interruptible	1,259,259	217,063	17.2
444	Seasonal	139,285	-4,947	-3.6
456	Int. Transportation	3,382,370	-40,756	-1.2
Overall		95,238,003³³	-1,575,488	-1.7

²⁵ See page 7 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing (i.e., row "7" Column "i").

²⁶ See page 7 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing (i.e., row "6" Column "i").

²⁷ Schedule 476, Intervenor Funding, Docket No. UG 340/Advice No. 17-03-G; Schedules 477, Residual Accounts, Schedule 478 DSM, and Schedule 479 SB 408 Cost Recovery, Docket No. UG 341/Advice No. 17-04-G; and Schedule 475, Decoupling Mechanism, Docket No. UG 342/Advice No. 17-05-G.

²⁸ The exact figure is shown in Attachment C of this public meeting memo.

²⁹ See column "Present Annual Revenue" of page 20 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing.

³⁰ "Total Revenues" include the revenues from: 1) base rates, 2) gas revenues (Purchased Gas Cost Adjustment Provision; Schedule 461), 3) amortizations (Gas Cost Rate Adjustment; Schedule 462), 4) intervenor funding (Intervenor Funding Grants – Oregon; Rate Schedule 476), and 5) low income assistance (Residential Low Income Rate Assistance Program – Oregon; Schedule 493).

³¹ See column "Total Incremental Change in Revenue" of Attachment A of this public meeting memo.

³² See column "Total Change – Proposed Annual Change" of page 20 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing.

³³ The total of \$95,238,003 does not equal the sum of the figures above this number, because it includes revenues of \$300,030 from Special Contracts. See page 20 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing (i.e., row "Special Contracts" Column "Present Annual Revenue").

Conclusion

This 2017 PGA Filing reflects a revenue decrease of \$2.0 million,³⁴ or approximately 2.1 percent³⁵ effective November 1, 2017, due to gas costs (Purchased Gas Cost Adjustment Provision; Schedule 461) and amortization of previous deferrals (Gas Cost Rate Adjustment; Schedule 462). Combining the impact of this filing with the three other regulatory filings filed on and after July 28, 2017 (i.e., Schedule 476, Intervenor Funding, Advice No. 17-03-G; Schedule 477, Residual Accounts, Schedule 478, DSM Cost Recovery, Schedule 479, and Senate Bill 408, Advice No. 17-04-G, and Schedule 475, Decoupling Mechanism, Advice No. 16-12-G), results in a revenue decrease of \$1.575 million,³⁶ or 1.7 percent,³⁷ as represented in Table 3 above.³⁸

With these changes, effective November 1, 2017, the monthly bill of a residential customer using an average of 47 therms per month will decrease by \$1.00, or -1.8 percent, from \$56.10 to \$55.10.³⁹

PROPOSED COMMISSION MOTION:

Approve Avista's application requesting gas cost changes for commodity and transportation, as proposed in Docket No. UG 339, effective with service on and after November 1, 2017, along with the associated tariff revisions in Advice No. 7-02-G.

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³⁴ \$2.0 million is the difference *between* the revenues at proposed rates *and* the revenues at current rates only for gas revenues (Purchased Gas Cost Adjustment Provision; Schedule 461) and amortizations (Gas Cost Rate Adjustment; Schedule 462). See Attachment B of this public meeting memo.

³⁵ See page 20 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing (i.e., row "Total Annual Revenues." Column "PGA Only - Proposed Annual Change."

³⁶ See Attachment A of the Company's Supplemental 2017 PGA Filing, row "Total," column "Total Incremental Change in revenue."

³⁷ See page 20 of 29 in Avista's work papers filed with its Supplemental 2017 PGA Filing (i.e., row "Total Annual Revenues." Column "Proposed Annual Change."

³⁸ The amounts shown in Table 3 include base rates, while the amounts shown in Attachments A and B to this memo are incremental changes without base rates.

³⁹ See Attachment D of this public meeting memo.

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Incremental Revenue Change by Customer Rate Schedule

Attachment A

Adjustment Schedule No. & Description		Gas Cost & Adjustment Schedule Revenue at Current ¹	Gas Cost & Adjustment Revenue at Proposed	Total Incremental Change in Revenue	% Contribution to Total Incremental Change
410	Residential	\$ 21,406,527	\$ 20,331,117	\$ (1,075,410)	68.26%
420	Small Commercial & Industrial	\$ 11,480,056	\$ 10,897,850	\$ (582,206)	36.95%
424	Large Commercial & Industrial	\$ 1,761,177	\$ 1,671,945	\$ (89,232)	5.66%
440	Interruptible for Large Commercial and Industrial	\$ 735,937	\$ 953,000	\$ 217,063	-13.78%
444	Seasonal	\$ 97,721	\$ 92,774	\$ (4,947)	0.31%
456	Transportation	\$ 49,547	\$ 8,791	\$ (40,756)	2.59%
Total		\$ 35,530,965	\$ 33,955,477	\$ (1,575,488)	100.00%
Note:					

¹ Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted therms). There will be small differences with the Advice filings.

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Incremental Revenue Change by Adjustment Schedule

Attachment B

Customer Rate Schedule	Description	Gas Cost & Adjustment Schedule Total Revenue at Current ¹	Gas Cost & Adjustment Schedule Total Revenue at Proposed	Total Incremental Change in Revenue	Incremental Percentage Change by Rate	Percent Contribution to Total Incremental Change
461	Purchase Gas Adjustment	\$ 37,884,009	\$ 36,439,176	\$ (1,444,833)	-3.8%	91.71%
462	Purchase Gas Cost Amortization	\$ (6,203,517)	\$ (6,763,323)	\$ (559,806)	-9.0%	35.53%
469	Public Purposes	\$ 1,814,456	\$ 1,814,456	\$ -	0.0%	0.00%
475	Decoupling	\$ -	\$ 2,143,794	\$ 2,143,794	100.0%	-136.07%
476	Intervenor Funding	\$ 148,299	\$ 93,243	\$ (55,056)	-37.1%	3.49%
477	Residual Account	\$ (7,363)	\$ -	\$ 7,363	-100.0%	-0.47%
478	Demand Side Management	\$ 1,584,644	\$ -	\$ (1,584,644)	-100.0%	100.58%
479	SB 408	\$ 82,308	\$ -	\$ (82,308)	-100.0%	5.22%
493	LIRAP	\$ 228,133	\$ 228,133	\$ -	0.0%	0.00%
		\$ 35,530,969	\$ 33,955,479	\$ (1,575,489)		100.00%
Notes:						
¹ Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted terms). There will be small differences with the Advice filings.						

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Three Percent Test

Attachment C

<i>(includes revenue conversion)</i>			
	Surcharge	Rebate	
Prior Period Gas Cost Deferral True-Up		\$ 6,762,827	0.0000%
Non-Gas Cost Amortization			
Inverenor Funding (Advice No. 17-03-G)	\$ 93,214		0.0597%
Decoupling (Advice No. 17-05-G)	\$ 2,143,794	\$ -	
Total	\$ 2,237,008	\$ 6,762,827	1.4326%
Total Proposed Amortization			
(Surcharge Less Credits)			\$ (4,525,819)
Less intervenor Funding ¹			\$ (93,214)
Net Proposed Amortization			
(subject to the 3% test)			\$ (4,619,033)
Utility Gross Revenue 2016²			
			\$ 156,148,758
3% of Utility Gross Revenue			
			\$ 4,684,463
Allowed Amortization			
			\$ (4,619,033)
Allowed Amortization as % of Gross Revenues			
			0.0000%
¹ Intervenor Funding is excluded from the result of the 3% test pursuant to ORS 757.259(4).			
² Total Gas Revenues as shown in YE 2016 Results of Operations.			