ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 2, 2013

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** ______N/A______

DATE: June 10, 2013

TO: Public Utility Commission

FROM: Deborah Garcia DG

THROUGH: Jason Eisdorfer JE, Maury Galbraith MG and Marc Hellman MG for MH

SUBJECT: AVISTA UTILITIES: (Docket No. UM 903) 2013 Spring Earnings Review.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Avista Utilities' earnings for the 12 months ended December 31, 2012, are below the earnings threshold established in UM 903 and there should be no earnings shared in this filing.

DISCUSSION:

In Order Nos. 98-543[1] and 99-284 (Dockets UM 903 and AR 357), the Commission adopted Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies – Northwest Natural, Cascade Natural Gas, and Avista Utilities (Avista or Company). One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were originally scheduled to sunset in 2002 but were extended twice, first until 2006 by Order No. 03-198 (AR 449) and then through 2008 by Order No. 07-019 (AR 512). Commission Order No. 08-504 (UM 1286) that adopted revisions to the current PGA mechanism also eliminated the sunset provision.[2]

The Commission's findings, as they apply to earnings reviews, are summarized below:

Annual Election
Each Local Distribution Company (LDC) shall make an annual election to determine how the cost variance between the weighted average cost of gas (WACOG) that will be included in rates and the actual WACOG experienced during the upcoming gas year

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[1] Amended by Order Nos. 99-272 and 04-203.
[2] The sunset provision was eliminated from OAR 860-022-0070 by Order No. 09-096 (AR 532).

(WACOG Variance), should be allocated between the LCD and its customers (WACOG Sharing). This election must be made by August 1 and the LDC may choose either 90/10 or 80/20.[3] In its letter, Avista elected a 90/10 WACOG Sharing beginning November 1, 2011.

Spring Earnings Review

An earnings review will be performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review will apply to the WACOG Sharing election made by the LDC the previous August (e.g., the 2011 election will apply to the 2012 Fiscal Year results of operations which are the subject of the 2013 Spring Earnings Review). If earnings are found to be above a specified return on equity (ROE) level, a portion of those revenues will be booked to a deferred account.

The ROE Earnings Threshold

An LDC that elects 90/10 WACOG Sharing will be subject to an earnings threshold 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets.[4] An LDC that elects 80/20 WACOG sharing is subject to an earnings threshold 150 basis points above its ROE, adjusted in the same manner.

Structure of Earnings Reviews

By May 1 of each year, the LDC will file results of operations for the 12 months ending the prior December 31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission would issue its decision on unresolved issues by August 15. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.

Earnings Adjustments

Recorded results of operations will include retained WACOG Variance earnings and be adjusted for Type 1 adjustments as set forth in Order No. 99-272, Appendix B. Avista made a one-time election not to include a weather normalization adjustment in its spring 1999 earnings review filing and each subsequent annual filing.

[3] 90/10 or 80/20 WACOG Sharing means that 90 or 80 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 or 20 percent will be absorbed or retained by the LDC.
[4] The earnings threshold is adjusted each year by 20 percent of any change in the risk free rate for the twelve-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c)).

Earnings Performance
If adjusted earnings (including any retained WACOG Variance) are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold will be shared with customers (Earnings Sharing).

Effective Date of Rate Adjustment and Applicable Interest
Upon completion of the earnings review, any amount of earnings over the sharing dead band determined to be returned to customers will be booked to a deferred account. Interest shall apply beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.

Staff's Review of Avista's Earnings
The Earnings Threshold for Avista for this 2013 Spring Earnings review (review of the 2012 results of operations) is 10.94 percent. As stated earlier, calculation of this threshold began with Avista's authorized ROE of 10.1 percent,[5] the addition of 100 basis points (based on a 90/10 WACOG Sharing election), further adjusted by 20 percent of the change to the risk free rate for the twelve-month period preceding the annual earnings review, or in this case -0.16 percent.

Pursuant to the rules, Avista submitted its 2012 Results of Operations report for the 12 months ending December 31, 2012. Avista calculates its ROE as 9.01 percent after the application of its Type I adjustments, excluding weather normalization.

Staff reviewed the Company's revised earnings report and concludes that Avista's reported ROE has been calculated correctly. Because Avista's adjusted ROE is below the authorized threshold of 10.94 percent, no Earnings Sharing is required.

As required by OAR 860-022-0070(6), Staff submitted these findings to the parties in Docket No. UM 903 on June 10, 2013, and received no comments in response.

PROPOSED COMMISSION MOTION:

Accept Staff's finding that Avista's 2012 earnings are below the Earnings Threshold designated in UM 903, and therefore no Earnings Sharing applies to the 2012 Fiscal Year.

[5] ROE established at 10.1 percent by Order No. 11-080 (UG 201).