ITEM NO. CA9

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 19, 2015

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**November 1, 2015**__

DATE: October 9, 2015

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: AVISTA UTILITIES: (Docket No. UM 1497(5)) Requests reauthorization to defer Purchased Gas Cost differences.

STAFF RECOMMENDATION:

I recommend the Commission approve Avista Utilities' application to defer purchased gas cost differences for the 12-month period beginning November 1, 2015.

ISSUE:

Avista requests reauthorization to use deferred accounting for purchased gas cost differences. Due to the volatility of the price of natural gas purchased and transported for customer use, the associated costs are difficult to establish with certainty, which necessitates the use of deferred accounting to accurately capture the costs for later incorporation in rates.

APPLICABLE LAW:

Avista Utilities (Avista or Company) makes this filing pursuant to ORS 757.259 and OAR 860-027-0300(4).

The PGA mechanism was originally established by the Commission in Order No. 89-1046 to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e). Previous approval of this deferral was most recently granted by Order No. 14-320.

ANALYSIS:

Description of Expense
The purpose of this deferral is to account for the monthly difference between gas costs expected to be collected from customers and gas costs actually collected, as set forth in Schedule No. 461 – Purchased Gas Cost Adjustment Provision – Oregon. The monthly differences arise because the rates associated with gas costs are calculated using forecasted gas prices and therms. A request to amortize the accumulated deferral is made annually, effective November 1.

Proposed Accounting
Avista proposes to continue deferring to sub-accounts of FERC Account 191 for subsequent distribution to, or collection from, customers consistent with the dictates of the PGA methodology. Gas cost differences will be segregated between commodity-related and demand-related cost differences. Absent deferred accounting, the charges incurred for gas costs would be recorded using standard accounting procedures and customers would not incur the benefits or costs associated with changes in the cost of gas.

Estimated Deferrals in Authorization Period
The goal of the PGA mechanism is to match gas costs incurred by the Company with gas costs included in customer rates. Any differences are the result of unexpected weather or volatility in gas prices, thereby making an accurate estimation of the deferred amount unlikely.

Information Related to Future Amortization
- Earnings Review – An annual spring earnings review will be conducted pursuant to OAR 860-022-0070.

- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – Due to Avista's previous sharing election related to the 2014-2015 PGA year, 90 percent of the difference between actual commodity costs and the commodity costs collected from customers will be deferred. Avista will absorb the other 10 percent. The commodity portion of purchased gas cost differences include purchasing natural gas, the variable cost of transporting the gas from the supply basin to the citygate, the benefits received from storage optimization, off-system sales, and other miscellaneous costs or benefits. One hundred percent of the demand portion of the purchased gas cost differences will be deferred.

The demand portion includes fixed pipeline costs, capacity releases, and miscellaneous pipeline related refunds or surcharges.

- Rate Spread/Design – Prudently incurred gas cost differences that have been correctly accounted for should be developed into a rate per therm based on estimated usage for the upcoming PGA year.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

- This deferral is subject to the exception at ORS 757.259(7) that 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.

Avista's application for reauthorization of deferred accounting meets the requirements related to the establishment of the PGA mechanism, as well as the requirements of ORS 757.259 and OARs 860-027-0300, and should be approved.

PROPOSED COMMISSION MOTION:

Avista's application for reauthorization to defer gas cost-related differences associated with the PGA mechanism be approved for accounting purposes for the 12-month period beginning November 1, 2015.