ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 26, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __________N/A__________

DATE: October 9, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Rawleigh White **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 1497(13))
Reauthorization to defer Purchased Gas Cost Differences.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Avista Corporation dba Avista Utilities' (Avista, AVA, or Company) application for reauthorization to defer purchased gas cost differences associated with the PGA mechanism for the 12-month period beginning November 1, 2023.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request for reauthorization to record and defer costs related to Purchased Gas Cost Differences for the 12-month period beginning November 1, 2023.

Applicable Law

This Application is filed pursuant to ORS 757.259, which allows the Commission to authorize the deferral of expenses or revenues of a public utility for later incorporation into rates.[1]

> Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3) the Commission

[1] ORS 757.259(2)(e).

> has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

In addition, due to the fluctuation of the wholesale price of natural gas, Commission Order No. 89-1046 established the PGA mechanism to enable utilities to pass on to customers actual gas costs while minimizing the frequency of rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e).[2] Under the PGA mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer actual purchased gas costs for a 12-month period. The difference between the actual gas costs and the cost charged to customers is amortized and recovered in rates if the utility's earnings are not excessive as defined by OAR 860-022-0070.[3]

<u>Analysis</u>

Background

The PGA mechanism allows utilities to regularly adjust the price of gas charged to customers to reflect the costs incurred by the utility to purchase and transport the gas. The monthly differences arise because utilities calculate the rates associated with gas costs using forecasted gas prices and therm usage. Avista files an annual request to amortize the accumulated deferral, to be effective November 1.

Additionally, The Company provides the calendar year regulated utility earnings, for ratemaking purposes, for which the deferral activity and dollars totals took place and on an annual basis, the Company files it's Oregon Division Results of Operations report to satisfy the reporting requirements associated with UM-903 (associated Order No. 99-272), AR 357 Rulemaking (associated Order No. 99-284) as well as the standard Oregon annual reporting requirements. The Company last filed this report with the Commission, which included the 2022 calendar year regulated utility earnings for ratemaking purposes, on April 28, 2023, which showed annual net operating income of approximately $20 million.[4]

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[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 four different times since they were first acknowledged by the Commission, in Order No. 10-197, in Order No. 11-196, in Order No. 14-238, and in Order No. 18-144.

[3] OAR 860-022-0070(1) (…earnings are excessive only if a gas utility does not share with its customers past revenues related to earnings that exceed an earnings threshold determined by the [C]ommission).

[4] Avista Corp response to request for information No. 2 to OPUC Staff.

Description of Expense
The Company accumulates Purchased Gas Cost differences in two sub-accounts of FERC Account No. 191, namely Account Nos. 191909 and 191910.

Account No. 191909 is used to record the commodity portion of Purchased Gas Cost differences and Account No. 191910 is used to record the demand portion.

After the Commission determines these costs were prudently incurred, these differences are included in the Company's annual Purchased Gas Cost Adjustment (PGA) filing for refund or surcharge to customers.

Current Deferral Activity and Amortization Balances
As of June 30, 2023, the outstanding balances for the Purchased Gas Cost deferral and amortization accounts are:

Account 191909, Commodity Deferrals	$(4,074,957)
Account 191910, Demand Deferrals	$(1,683,830)
Account 191911, Prior Commodity Amortization	$688,380
Account 191912, Prior Demand Amortization	$17,876
Total	$(5,052,531)

The Company will be recorded on FERC Account No. 191 to account for the Company's Purchased Gas Cost differences for the 12-month period, November 1, 2023, through October 31, 2024. This Application will have no effect on Company revenue or customer rates.

Proposed Accounting
The Company proposes the Gas costs related to commodity purchases are recorded in various FERC accounting, including 804 (Gas Costs), 808 (Gas Storage), 811 (Gas Production Extraction Credits), 495 (Entitlement Penalties), and 483 (Sales for Resale). Gas costs related to demand charges are recorded to FERC Account 804 (Demand Charges). These costs are offset by the actual revenue collected through customer's rates and the difference is deferred.

These costs are tracked separately and distinctly from other costs and expenses and are not included in other gas rates. In the Company's annual Purchased Gas Adjustment (PGA) filing, the company provides a reconciliation of actual costs incurred, revenues collected from customers through rates, and the amount deferred with interest.[5]

Information Related to Future Amortization

- Earnings Review – Prior to amortization, 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 previously filed sharing election related to the 2023-2024 PGA year, the Company will defer 90 percent of the difference between actual commodity costs and the commodity costs collected from customers. Avista will absorb the remaining ten percent. The commodity portion of purchased gas cost differences includes purchasing natural gas, the variable cost of transporting the gas from the supply basin to the city-gate, 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.

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[5] Avista Corp response to request for information No. 1 to OPUC Staff.

Conclusion

Based upon review of Avista's application, Staff concludes that the proposed reauthorization represents an appropriate use of deferred accounting under ORS 757.259. Additionally, 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 OAR 860-027-0300.

Avista has reviewed this memorandum and concurs with its contents.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization to defer Purchased Gas Cost differences associated with the PGA mechanism for accounting purposes for the 12-month period beginning November 1, 2023.

AVA UM 1497 (13) Purchased Gas Deferral