ORDER NO. 03-588

ENTERED OCT 01 2003

# BEFORE THE PUBLIC UTILITY COMMISSION

# OF OREGON

UG 154/UM 1099

| | | |
|---|---|---|
| In the Matter of | ) | |
| | ) | ORDER |
| AVISTA UTILITIES | ) | |
| | ) | |
| Application for Tariff Revisions Related to Purchased Gas Technical Adjustments. **UG 154** | ) | |
| | ) | |
| Application for the Reauthorization of Deferred Accounting for the PGA (Purchased Gas Adjustment) Mechanism. **UM 1099** | ) | |

DISPOSITION: APPLICATIONS APPROVED

On August 1, 2003, the Public Utility Commission of Oregon (Commission) received two applications from Avista Utilities. A description of the filings and their procedural history is contained in the Staff Report[1], attached as Appendix A, and incorporated by reference.

Based on a review of the applications and the Commission's records, the Commission finds that the applications satisfy applicable statutes and administrative rules. At its public meeting on September 23, 2003, the Commission adopted Staff's recommendation to approve the applications.

## ORDER

IT IS ORDERED that:

1. Amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 154 are approved.

[1] A typographical error in Staff's September 16, 2003 Public Meeting Report should be corrected as follows: On page 1, on the second line under the discussion heading, the reference to the filing docketed UE 154 should be corrected to denote the docket UG 154.

2. Tariff sheets included in Supplemental Advice No. 03-02-G are allowed to go into effect October 1, 2003, with approval of the company's request for an LSN (Less than Statutory Notice).

3. The reauthorization of deferred accounting for Avista Utilities' Purchased Gas Balancing Account mechanism, Schedule No. 464, for one year beginning October 1, 2003, is approved.

Made, entered and effective ___________________________________.

| | |
|---|---|
| ______________________ | ______________________ |
| **Lee Beyer**<br>Chairman | **John Savage**<br>Commissioner |
| | ______________________ |
| | **Ray Baum**<br>Commissioner |

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ORDER NO. 03-588

**ITEM NO.**

**PUBLIC UTILITY COMMISSION OF OREGON**
**STAFF REPORT**
**PUBLIC MEETING DATE: September 23, 2003**

**REGULAR** __X__ **CONSENT** ____ **EFFECTIVE DATE** __**October 1, 2003**__

**DATE:** October 2, 2003

**TO:** Lee Sparling through Ed Busch and Bonnie Tatom

**FROM:** Janet Fairchild and Ed Krantz

**SUBJECT:** AVISTA UTILITIES: (Docket No. UG 154/Advice No. 03-02-G Supplemental) Reflects changes in the cost of purchased gas and technical adjustments.
(Docket No**.** UM 1099) Requests reauthorization of the PGA deferral mechanism.

**STAFF RECOMMENDATION:**

We recommend that Avista Utilities' proposed tariff sheets in Advice No. 03-02-G Supplemental be allowed to go into effect on October 1, 2003, and that the Commission approve the company's application to waive statutory notice. This filing increases the company's annual revenues by about $8.0 million, or 12.4 percent.

We also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its Purchased Gas Adjustment (PGA) balancing account.

**DISCUSSION:**

On August 1, 2003, Avista Utilities filed its annual gas cost tracking and technical adjustment application, commonly known as its PGA filing. The filing, docketed UE 154, proposed a $11,658,926 rate increase, effective October 1, 2003, to reflect changes in the cost of purchased gas, and amortization of deferred revenue and non-gas cost accounts. The company replaced that filing on September 2, 2003, along with an application to waive statutory notice (LSN), reducing the overall increase to $8,026,748, or 12.4 percent. The revision resulted from an agreement between the parties in the company's pending general rate filing in Docket UG 153.

Due to the significant increase in gas costs as well as the pending general rate case increase, the company proposes to mitigate the total PGA increase by postponing recovery of the current deferred gas cost balance. By postponing the amortization of the deferred gas cost balance, currently about $3.1 million, the proposed increase is lower by about 4.8 percent. In addition, the company will make an out-of-period PGA filing early next year requesting the Commission incorporate the remaining gas cost increase (that would otherwise have been implemented in the current filing), as well as begin amortizing the additional gas cost deferrals resulting from the lower gas cost increase in this filing.

In a separate filing docketed as UM 1099, the company requested authorization to continue deferring revenues and gas costs under its PGA mechanism for the 12 months beginning October 1, 2003.

**UG 154**

In this filing, Avista proposes to pass on a 12.4 percent rate increase to its Oregon customers. This rate change consists of an increase in the base cost of the company's system gas supplies, and an increase from adjusting the amortization rates for deferred revenue and gas cost accounts. The total change in annual revenues is summarized below and shown in Attachment A.

| | |
|---|---|
| PGA Base Gas Cost Increase | $ 6,748,888 |
| Removal of Temporary Credit Increment | 590,865 |
| Adding New Temporary Debit Increment | 686,993 |
| Total Proposed Increase[1] | $ 8,026,748 |

*Summary of Bill Effects*

This filing increases residential customer bills by 12.25%. A typical residential customer using 55 therms per month will see their monthly bill increase by $5.28, from $43.09 to $48.37. In January, a typical residential customer’s consumption of 110 therms would result in a billing increase from $82.19 to $92.74. When these PGA changes are combined with the effect of the company’s proposed general rate changes in UG 153, the total impact on Avista’s typical residential customer’s bill would be $10.74. The January bill for a typical residential customer would increase $20.48 over last January’s bill.

A summary of the proposed tariff and revenue changes for Avista’s major rate schedules is shown in Attachment A. A summary of the impact of the rate changes on Avista’s

[1] The revenues on Attachment A (the company’s Exhibit AU-K) have been rounded, with a resultant sum of $8,026,748; the actual sum is $8,026,746.

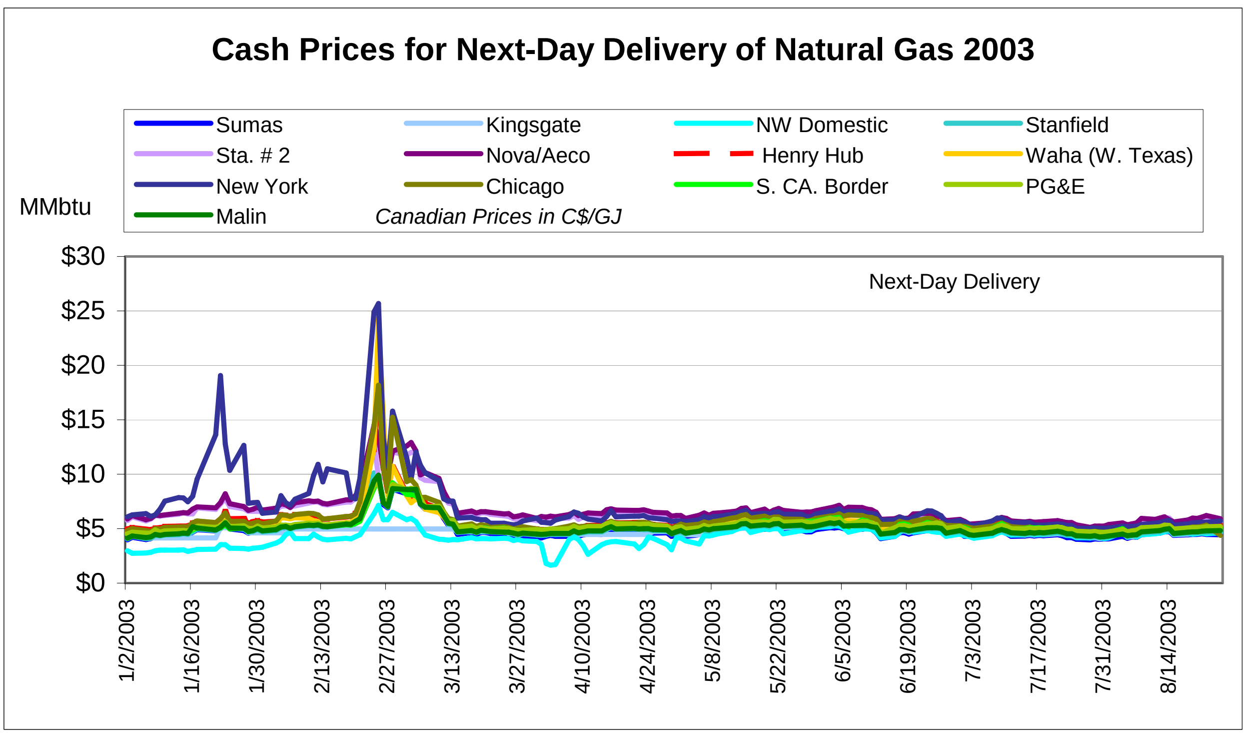
customers on both an annual and monthly basis is shown in Attachment B, along with the current rates and rate and bill impacts on Cascade and NW Natural customers of their PGA filings. Attachment B also shows the combined effect of Avista's general rate case and its PGA filing.

## Staff Review of Gas Costs

### *National, Region and Local Trends*

Extreme volatility in wholesale natural gas prices surfaced again this past year. The long winter that hammered the Northeast increased demand and strained supplies from both production and storage, with the result that natural gas prices soared in markets east of the Mississippi. In the final week of February, the cash index price for delivery at the Henry Hub in Louisiana spiked at $18.85/MMBtu. At the same time delivery to the New York City city gate hit $25.67/MMBtu and prices for next-day flows into New England reached $35+/MMBtu.

Withdrawals from storage to supplement pipeline supplies reached record volumes. As a result, the 3,172 Bcf storage inventory of October 25, 2002 was reduced to a record low inventory of 623 Bcf by April 11, 2003.



Prices for Northwest delivery were not immune from this volatility. With the increasing interconnectivity between pipelines and markets across the country, traders found that West Coast markets are no longer isolated from eastern demand, and must compete with eastern markets for diminishing volumes of natural gas.

At the same time that prices at the New York City city gate hit $25+/MMBtu, cash-market deliveries at Sumas, which only the year before were going for $2.22/MMBtu, jumped to $9.68 and deliveries at Stanfield hit $9.37/MMBtu, compared to $2.02 the previous year.

While prices have retreated from the peaks of February and March, basis-adjusted prices for delivery to the Northwest in the coming heating-season were still running between $4.50 and $5.25/MMBtu at the end of August.

One additional factor impacting prices for natural gas delivered to Pacific Northwest points was the opening in May of the Kern River Pipeline expansion. The capacity expansion on Kern River's system effectively doubled the takeaway capacities for deliveries into the Nevada and California markets. By providing an additional outlet to the south, the Kern River expansion effectively eliminated the production "surplus" in the region. The effect on Oregon is that the previously inexpensive Rockies gas supplies are now being priced at parity with Canadian-sourced natural gas.

*Avista's Gas Cost Situation*

Under the Gas Benchmark Mechanism (GBM), Avista Utilities delegates daily gas purchases to its affiliate, Avista Energy. Avista Energy folds the daily gas requirements of Avista Utilities into its much larger natural gas portfolio. Avista Utilities retains title to the gas, manages the affiliate relationship, and performs state regulatory reporting functions.

Prior to implementation of the GBM, gas costs were based on specific contract prices and volumes bought by Avista Utilities for WP Natural Gas.[2] Since then, annual gas costs are determined under the GBM. Under the mechanism, the commodity cost of gas is calculated as $0.005 a therm plus the First-of-Month (FOM) weighted average of the following three market indices: Alberta Energy Company (AECO) at 50%, Sumas at 25%, and Rockies at 25%. As a result, the annual commodity cost of gas directly reflects general market increases and decreases.[3] Given the overall market conditions discussed above, Avista's increased commodity price of gas is not surprising. Even so, Avista's customers continue to benefit from the lowest gas rates in Oregon.

[2] Avista Utilities operated as WPNG in its Oregon service territory until January 1999.
[3] Avista purchases hedges for 35% of their estimated annual usage to minimize market risk.

*Staff's Review of Avista's Gas Costs*

Each year, Avista and the two other regulated gas utilities are required to file for rate changes related to purchased gas costs with an effective date of October 1. Avista's GBM filing indicates that a $6,748,888 PGA base gas cost increase, as shown on Attachment A, is warranted. This increase consists of a $7,687,714 increase in gas commodity costs, offset by a $938,826 decrease in demand costs.[4]

In work papers submitted to staff, Avista shows a projected annualized gas cost of $47,407,346. This represents a 20% increase over the current annual cost, including both natural gas commodity costs and transportation costs.

The 20% increase is attributable to a combination of factors, the most significant of which is a projected $8.1 million increase in the price of natural gas available to the utility.[5] This is a 31% increase from the $26 million spot commodity cost projected in the 2002 filing. Overall transportation costs have decreased from the 2002 filing.

Last year, Avista's supply portfolio projected volumes of 80,441,482 therms and a weighted average cost of gas, or WACOG, of $0.31900. In this filing, the company forecasted volumes totaling 83,173,359 therms, an increase of just 3.4%. However, the major change for this PGA is due to an increase in the weighted average cost of gas from $0.31900 to $0.40160, an increase of 25.6%.[6]

Staff reviewed the PGA filing to determine the merit and basis for the proposed gas cost increase. Staff examined GBM input assumptions and GBM monitoring reports, and duplicated gas cost calculations, audited billing records, examined support documents and exhibits. Staff also inspected Avista's proposed tariff sheets to verify their accuracy. No material errors or irregularities were found and Avista will make minor corrections in its subsequent compliance filing.

At the top of the next page is a table of Avista's Weighted Average Cost of Gas since 1993. These numbers are unadjusted for the effects of inflation.

---

[4] Gas commodity costs are reflected both in the basic commodity cost and in transportation costs. Demand costs are included in transportation costs only.

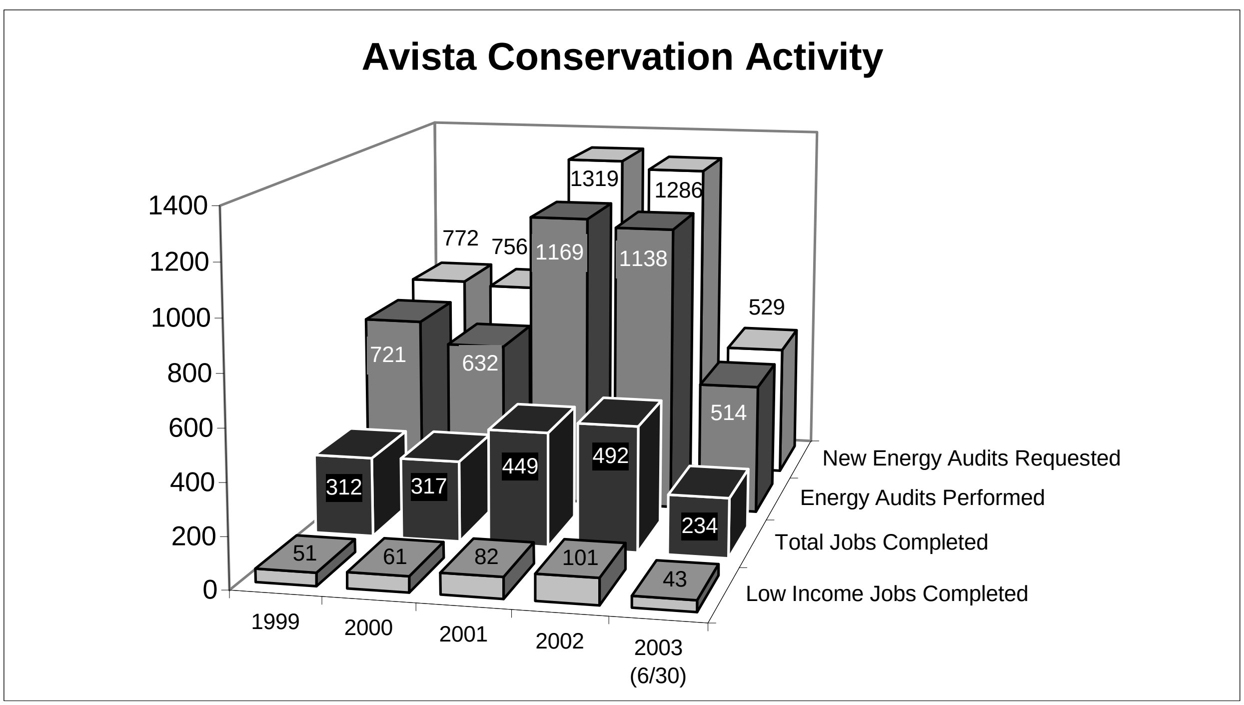
[5] The difference between the projected $8.1 million increase in the price of natural gas available to the utility and the $7.7 million increase in overall gas commodity costs is attributable to the portion of gas commodity costs reflected in transportation rates and to Avista's Jackson Prairie inventory withdrawals.

[6] Based on projected loads and expected commodity prices, the company is entitled to a WACOG of $0.48800. However, in compliance with the stipulation entered into in Avista's recent general rate case, the company has adjusted its WACOG to $0.40160 so that the overall increase in residential bills, including the effect of the general rate increase, will not exceed 25%.

| Year | WACOG | Change |
|---|---|---|
| 1993 | .18835 | |
| 1994 | .21857 | 16% |
| 1995 | .17283 | 27% |
| 1996 | .12885 | -25% |
| 1997 | .17921 | 39% |
| 1998 | .17629 | -2% |
| 1999 | .23000 | 30% |
| Oct 2000 | .31524 | 36% |
| Dec 2000 | .53126 | 69% |
| Oct 2001 | .40700 | -23% |
| Apr 2002 | .37500 | -8% |
| Oct 2002 | .31900 | -15% |
| Oct 2003 | .40160 | 26% |

*How does Avista expect to work with its customers in the next year?*

- The company will continue mandated energy audits under its Residential Energy Conservation and Commercial Energy Conservation Services Programs. Performance and customer participation in this program slipped last year, after peaking in 2001. Participation this year also appears to be declining. This is anticipated as the number of remaining underweatherized homes dwindles each year. Avista continues to re-evaluate the cost-effectiveness of weatherization measures and activities to reflect current avoided costs.



- Avista will continue its Commercial/Industrial DSM Incentive Program that offers partial funding for the installation of cost-effective energy conservation measures.

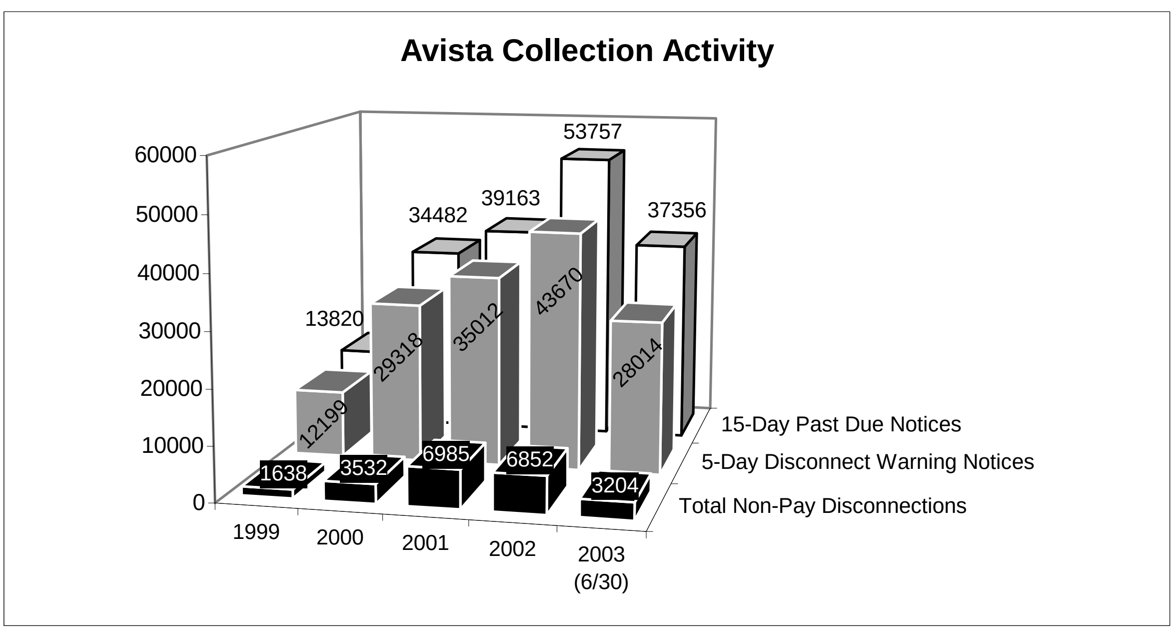
- The company initiated a low-income rate assistance program (LIRAP) last year under ORS 757.315. As of June 30, 2003, $251,789 had been collected, with $196,941 distributed to 557 of the company's low-income customers in Oregon with an average grant of $257.

- Company contributions to the voluntary "Project Share" bill payment assistance program are anticipated to be $12,000 for 2003. Total funding available through this program in 2003 (combined customer, industry and company contributions) will be approximately $30,406.

- The company will continue to offer its customers the required equal payment plans and a *Level Payment Plan* designed to average the monthly payments for gas service of any residential customer. As of June 30, 2003, a total of 4,475 Avista customers are participating in this program, compared to 4,331 at the same time last year.

- The company's *CARES* program offers help to customers with special payment arrangements, minor budgeting advice on other bills, weatherization programs, and referrals to other agencies that can help with special problems.

- Avista will also provide the required 12-month payment arrangements on arrearages to its customers. As of June 30, 2003, customer participation in arrearage Time Payment Agreements projected over 12 months displayed an almost 8% increase over 2002 levels. Likewise, volumes of 15-day and 5-day disconnection warning notices projected over 12 months have increased this year, while for the second straight year, the number of accounts actually disconnected for non-payment continues to decline.



- In October, Avista will send a special newsletter included with the bill to all Oregon customers providing relevant information regarding the PGA and general rate increases, as well as information regarding customer assistance programs.

## Technical Adjustments – Deferred Accounts

As shown in Attachment A, the net increase in deferred account amortizations of $1,277,858 results from changes in the amortization rates for the company's deferred gas cost and DSM-related balancing accounts. The Commission previously authorized all of the deferred amounts subject to amortization.

Removing the temporary credit increment currently in place increases rates by $590,865. Over the next 12-month period beginning October 1, 2003, Avista proposes to amortize net debits of $686,993 in DSM costs. As mentioned above, Avista is delaying amortization of about $3.1 million in gas costs deferred from July 2002 through June 2003. The effect of removing the current temporary increment and adding the new one results in a net increase of $1,277,858. Staff has reviewed the deferred accounts and verified the accuracy of the changes in amortization rates.

## Rate History

The table below shows the rates the Commission has approved for the company's residential customers on Schedule 410 since 1994.

| Date | Customer Charge | Rate | +/-% |
|---|---|---|---|
| December 1, 1994 | $3.50 | $0.57187 | |
| December 1, 1995 | $4.00 | $0.52685 | -7.9% |
| December 1, 1996 | $4.00 | $0.47478 | -9.9% |
| December 1, 1997 | $4.00 | $0.52651 | 10.9% |
| December 1, 1998 | $4.00 | $0.51375 | -2.4% |
| December 1, 1999 | $4.00 | $0.56962 | 10.9% |
| October 1, 2000 | $4.00 | $0.69013 | 21.2% |
| January 24, 2001 | $4.00 | $0.91367 | 32.4% |
| October 1, 2001 | $4.00 | $0.91367 | 0.0% |
| April 2, 2002 | $4.00 | $0.76535 | -16.2% |
| October 1, 2002 | $4.00 | $0.71078 | -7.1% |
| October 1, 2003 (Proposed PGA)* | $4.00 | $0.80672 | 13.5% |
| October 1, 2003 (Proposed UG 153) | $5.00 | $0.88787 | 10.1% |

*The 13.5% PGA increase shown in this table reflects the change in energy rate only. The net bill impact for residential customers will be 12.25% in compliance with the UG 153 stipulation.

**Earnings Review and Three Percent Test**

As a matter of policy, in past years the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. In 1999, the Commission concluded its PGA Investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes. In Order No. 03-198 (AR 449), the Commission extended the earnings reviews for an additional four years to 2006.

In addition, Section (8) of OAR 860-022-0070 states: “An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism.” In 1999, the Commission allowed Avista to implement an experimental natural gas benchmark mechanism (GBM). The company claims this mechanism will provide customers lower costs over time than the 67/33 sharing mechanism and previously the Commission approved a waiver of the earnings review related to amortization of deferred gas costs for the duration of the experimental period. At the March 5, 2002 Public Meeting, the Commission approved Avista Utilities request to renew its GBM for a three-year period ending March 31, 2005.

ORS 757.259 (6) and (7) states that the overall annual average rate impact of the amortizations authorized under the statute may not exceed three percent of the utility’s gross revenues for the proceeding calendar year, unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. Avista's proposed amortizations are below the 3 percent cap and should be implemented as proposed.

**UM 1099**

In this filing, Avista requests reauthorization of deferrals pursuant to its automatic adjustment clause, the PGA mechanism. The PGA allows the company to adjust tariffs annually for known and measurable changes in purchased base gas costs and for changes in amortization rates relating to the PGA balancing account.

The information contained in the application is consistent with the requirements of ORS 757.259, 757.210 and OAR 860-027-0300. The application states that continued deferral of these cost and revenue differences minimizes the frequency of rate changes and appropriately matches costs borne and benefits received by ratepayers, consistent with

ORS 757.259(2)(e). The reasons cited for reauthorization are still valid. Staff recommends the Commission approve the request for reauthorizing the PGA, effective October 1, 2003.

**PROPOSED COMMISSION MOTION:**

Avista Utilities' request for: 1) amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 154 be approved; 2) the associated tariff sheets included in Advice No. 03-02-G Supplemental be allowed to go into effect October 1, 2003 with approval of its LSN; and 3) reauthorization of deferred accounting for Avista Utilities' Purchased Gas Balancing Account mechanism, Schedule No. 464, for one year beginning October 1, 2003 be approved.

Attachments