

ORDER NO. 04-392

ENTERED JUL 13 2004

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BEFORE THE PUBLIC UTILITY COMMISSION**

OF OREGON

UM 903/AR 357

In the Matter of)	
)	ORDER
AVISTA CORPORATION)	
)	
Spring Earnings Review.)	

DISPOSITION: NO EARNINGS SHARED

On May 14, 2004, Avista Corporation filed with the Public Utility Commission of Oregon (Commission), its 2003 earnings report for the 12 months ended December 31, 2003.

At its July 6, 2004 public meeting, the Commission adopted Staff's recommendation, which is attached as Appendix A, and is incorporated by reference. Based on Staff's review of the earnings report and the Commission's records, the Commission finds that the company's report was developed in a manner consistent with Commission Order No. 99-272. The adjusted earnings fall below the earnings threshold designated in Order No. 04-203, resulting in no shared earnings.

ORDER

IT IS ORDERED that Staff's recommendation, attached as Appendix A, is adopted.

Made, entered and effective _____.

BY THE COMMISSION:

BECKY L. BEIER
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 6, 2004**

REGULAR _____ CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: May 18, 2004

TO: Lee Sparling through Ed Busch and Judy Johnson

FROM: Carla Owings

SUBJECT: AVISTA UTILITIES: (Docket No. UM 903/AR 357) 2004 Spring Earnings Review

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that there should be no earnings shared in this filing due to Avista Utilities' 2003 earnings that fall below the earnings threshold pursuant to UM 903.

DISCUSSION:

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted PGA Procedures and Standards for Oregon's three regulated natural gas distribution companies – Avista Corporation (Avista), Cascade Natural Gas Corporation, and NW Natural. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were scheduled to sunset in 2002, but in Order 03-198 (AR 449) the Commission extended the earnings reviews for an additional four years to 2006.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to through a Statement of Stipulated Issues. On issues where no agreement was reached, the Commission ordered various resolutions. The Commission's findings, as they apply to earnings reviews, are summarized below:

- Relationship of Earnings Review to Purchased Gas Adjustment (PGA) Filings: A general earnings review will be held each spring; a portion of revenues above a specified return on equity (ROE) level would be booked to a deferred account.

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- Structure of Earnings Reviews: By May 1 each year, Local Distribution Company's (LDCs) will file results of operations for the 12 months ended 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 September 15. Beginning in 2001, LDCs file annual gas cost tracking filings by August 15 for October 1 rate changes. These rate changes include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.
- Effective Date of Rate Adjustment: Amount of revenues to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
- For the spring 2004 review, Avista's earnings threshold will be calculated as the sum of 10.25 percent, the ROE authorized for Avista by Commission Order 03-570, plus 300 basis points; or 13.25 percent.
- If adjusted earnings 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 level will be shared with customers.
- Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. Avista made a one-time election not to include a weather normalization adjustment in its spring earnings review filings.
- Changes to PGA Mechanism: For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism there will be no earnings test in the fall prior to amortizing deferrals. Avista implemented an experimental Gas Benchmark Mechanism in late 1999 relating to variations in gas costs. In Avista's December 1999 gas cost tracking filing, the Commission approved the company's request to waive the fall earnings test for the duration of the experimental period; that is, for the 2000 and 2001 earnings reviews. On January 28, 2002, Avista asked the Commission to renew its gas benchmark mechanism and waive the fall earnings review for an additional three years through March 2005. The Commission approved that request at its February 21, 2002, Public Meeting.

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Avista's Earnings Review

On May 14, 2004, Avista submitted its 2004 earnings report for 12 months ended December 31, 2003. The company states that its report was developed in a manner consistent with Commission Order No. 99-272 and reflects adjustments made per past practices. The company calculates its ROE as .35 percent after application of its Type 1 adjustments, which is below the 13.25 percent threshold authorized by the Commission.

Staff has examined the company's filed earnings report and concludes that the reported ROE is calculated accurately as represented by Avista. Because Avista's adjusted ROE is below the authorized threshold, there should be no sharing of earnings with customers.

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

PROPOSED COMMISSION MOTION:

The Commission accept Staff's finding that Avista Utilities' 2003 earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

UM 903 Avista Spring Earnings 2004