ORDER NO. 04-574

ENTERED OCT 05 2004

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 159/UM 1162

In the Matter of AVISTA UTILITIES Application for Tariff Revisions Related to Purchased Gas Technical Adjustments. **(UG 159)** Application for the Reauthorization of Deferred Accounting for the PGA (Purchased Gas Adjustment) Mechanism. **(UM 1162)**	)))))))))))	ORDER

DISPOSITION: APPLICATIONS APPROVED

On August 13, 2004, the Public Utility Commission of Oregon (Commission) received concurrent filings from Avista Utilities. A description of the filings and their procedural history is contained in the Staff Report, 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 28, 2004, 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 159 are approved.

2. Tariff sheets included in Advice No. 04-03-G Supplemental are allowed to go into effect October 1, 2004, 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 a one-year period[1] beginning October 1, 2004, is approved.

4. Avista Utilities' request to exceed 3% of its gross revenues by 0.7% on its proposed two-year amortization of gas costs is approved.

Made, entered and effective ___________________________________.

BY THE COMMISSION:

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BECKY L. BEIER
Commission Secretary

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.

[1] The proposed Commission motion in the attached Staff Report mistakenly indicated a two-year reauthorization of the deferral mechanism. ORS 757.259 limits authorization of a deferral to 12-months.

ITEM NO. 1 & 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 28, 2004

REGULAR	**X**	**CONSENT**		**EFFECTIVE DATE**	**October 1, 2004**

DATE: September 20, 2004

TO: Lee Sparling through Ed Busch, Bonnie Tatom and Judy Johnson

FROM: Reed Harris and Carla Owings

SUBJECT: AVISTA UTILITIES: (Docket No. UG 159/Advice No. 04-03-G) Reflects changes in the cost of purchased gas and technical adjustments.
(Docket No. UM 1162) Requests reauthorization of the PGA deferral mechanism.

STAFF RECOMMENDATION:

We recommend the Commission approve Avista Utilities' (Avista or company) request to waive statutory notice (LSN) and allow the company's proposed tariff sheets in Advice No. 04-03-G Supplemental to become effective on October 1, 2004. This filing increases the company's annual revenues by approximately $11.4 million, or 12.6%.

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 and allow the company to exceed 3% of its gross revenues by 0.7% on its proposed two-year amortization of gas costs.

DISCUSSION:

On August 13, 2004, Avista Utilities filed its annual gas cost tracking and technical adjustment application, commonly known as its PGA filing. The PGA allows Avista 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 filing, docketed UG 159, proposed a $13.7 million rate increase, effective October 1, 2004, to reflect changes in the cost of purchased gas, and amortization of deferred revenue and non-gas cost accounts. In a concurrent filing docketed as UM 1162, Avista requested reauthorization of deferrals under the company's PGA mechanism.

On September 16, 2004, Avista replaced Advice No. 04-03-G in its entirety, and filed replacement Advice No. 04-03-G Supplemental, along with an LSN, to reflect decreased gas costs. The re-filed PGA requests an overall revenue increase of approximately $11.4 million annually, or 12.6%. On September 20, 2004, at Staff's request, the company filed an additional tariff sheet to reflect revised calculations of its gas cost deferrals. Avista requested that all proposed tariff sheets become effective October 1, 2004.

This is the second rate change for Avista's customers in the last twelve months. In its March 16, 2004, Public Meeting, the Commission approved an overall out-of-period increase of revenues of approximately $5.8[2] million, or 7.3%. The deferred gas cost surcharge balance has increased to approximately $10.7 million.

UG 159

This application requests authority to increase rates to: (1) track increases in purchased gas costs, and (2) make technical adjustments to amortize Avista's deferred revenue and gas cost accounts. The change in annual revenues is summarized below, and shown in Attachment A.

PGA Base Gas Cost Increase	$ 8,940,616
Removal of Prior Year Temporary Debit Increment	$ (3,097,767)
Addition of New Temporary Debit Increment	$ 5,548,277
Total Proposed Increase	$ 11,391,126

With these changes, the monthly bill of a typical residential customer using 55 therms per month will increase by $7.11, or 12.3%, from $57.67 to $64.78 from the current base established in April of 2004. Using the October 2003 PGA-approved rates as a base (rather than the April 2004 approved rates), a typical residential customer's bill will increase 20.3%. In January, a typical residential customer's consumption of 114 therms would result in a billing increase from $106.22 to $128.91, an increase of 21.4% 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 that compares the impact of this year's proposed PGA rate changes, on both an annual and a January basis, for Avista, Cascade and Northwest Natural residential customers, is shown in Attachment B.

[2] Approximately $2.1 million of the total $5.8 million recovered in April represented implementation of the delayed portion of the WACOG from last year's PGA filing. The other $3.4 million recovered in the April 1, 2004 out-of-period PGA filing represented the additional deferrals from October 1, 2003 to March 31, 2004 that resulted from the delayed WACOG increase.

The following table shows the rates the Commission has approved for Avista's residential customers on Rate Schedule 410 between 2000 and 2004, and the current proposal.

Date	Customer Charge	Rate Per Therm	Percentage Change *
October 2000	$4.00	$0.69013	
January 2001	$4.00	$0.91367	32.4%
October 2001	$4.00	$0.91367	0.0%
April 2002	$4.00	$0.76535	-16.2%
October 2002	$4.00	$0.71078	-7.1%
October 2003 (PGA)	$4.00	$0.80672	13.5%
October 2003 (UG 153)	$5.00	$0.88787	10.1%
April 2004	$5.00	$0.95764	7.9%
October 2004 (Proposed)	$5.00	$1.08689	13.5%

Avista offers customer assistance programs. Specific information on these programs is readily available to customers on their monthly bills, by telephone, in person at the company offices, and on the company's web site.

Staff Review of Gas Costs

Regional Natural Gas Market

Wholesale cash prices for next-day delivery of natural gas to Pacific Northwest (PNW) points have averaged over $5/MMbtu ($0.50/therm) since October of 2003. Looking forward, even though current average spot prices for September Northwest delivery are in the mid-$4/MMBtu range, prices for delivery in the coming 2004 - 2005 heating season remain near $6/MMbtu. The September 8, 2004 NYMEX screen, adjusted for PNW delivery, projects natural gas prices at more than $5/MMBtu until April of 2007.

One of the factors contributing to price strength in western markets is the Kern River Pipeline expansion that was completed in 2003. This allowed additional Rockies gas production to be delivered to California markets. Since that time, Rockies domestic gas prices have escalated to parity with the prices for Canadian gas delivered to Pacific Northwest points.

* The percentage change reflects only the change in the rate per therm, and does not include the effect of the monthly customer charge on the bill. In 2004, when the rate per therm is combined with the monthly customer charge of $5.00, the average customer's bill is increased about 12.3%, as shown on Attachment B.

Storage inventories in the western region, as of September 3, 2004, totaled 362 Bcf. That is 25 Bcf higher than at the same time last year, and 21 Bcf above the 5-year average inventory for the date.

According to the Northwest Gas Association's presentation at the June 24, 2004, Natural Gas Supply and Price Outlook public meeting, the Northwest is geographically well-situated between supply basins with ample gas available to meet regional needs. Assuming continued robust injections into storage and uninterrupted pipeline flows, supplies to Oregon natural gas customers, while more expensive than last year, should remain stable this winter.

Avista's Natural Gas Purchasing Strategy

As the natural gas market evolves, increasingly similar market conditions and options are becoming available for Oregon's natural gas local distribution companies (LDCs). For example, long-term, fixed-cost supply contracts are no longer the norm; they have been replaced by fixed-year supply contracts that are priced at some index. The prices of the fixed-supply contracts can be fixed by the use of financial derivatives. Staff's review of the Oregon LDCs' natural gas portfolio purchasing practices, in conjunction with the Commission's 2004 Objectives, should be completed by the end of the year.

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.[3] 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.[4] The GBM expires March 31, 2005. At that time, the gas procurement function will revert back to Avista Utilities.

[3] Avista Utilities operated as WPNG in its Oregon service territory until January 1999.
[4] Avista plans to execute hedges for about 50% of their projected winter load requirements prior to the heating season in accordance with the hedging schedule in the GBM.

Avista's Natural Gas Costs

Avista, together with the other two regulated gas utilities, is required to file annually for rate changes related to purchased gas costs. The annual cost of gas includes both natural gas commodity and transportation costs. The rate changes are associated with changes in the company's natural gas sales volumes, the cost of the gas, and certain transportation costs.

Last year, the weighted average cost of gas (WACOG) embedded in customers' rates was $0.40160 per therm, based on projected sales volumes of 98,071,280 therms. In the April 2004 filing, Avista again projected annual sales volumes of 98,071,280 therms at a WACOG of $0.46230. In this filing, the company projects sales volumes of 89,843,680 therms at a WACOG of $0.56592 per therm, an increase of 22.4%, or 40.9% since last October.

Staff has reviewed the current PGA filing to determine the basis for the proposed gas cost changes. In the review, Staff examined the filing's work papers that include gas supply contracts, the prices paid for the gas, and the volumes of gas delivered to customers. Staff concludes that Avista's proposed WACOG of $0.56592 is an accurate reflection of the company's annual commodity cost. In this year's PGA filings, the WACOGs proposed by each of the Oregon LDCs differ only slightly. Staff also reviewed Avista's proposed tariff sheets and verified their accuracy.

Technical Adjustments – Deferred Accounts

As shown in Attachment A, the net increase in deferred account amortizations of $2,450,510 results from changes in the amortization rates for the company's deferred temporary increments. The Commission previously authorized all of the deferred amounts subject to amortization.

Removing the temporary debit increment currently in place decreases rates by $3,097,767. Over the next 12-month period beginning October 1, 2004, Avista proposes to amortize net debits of $5,548,277. As mentioned in the discussion on page 2 of this memo, Avista is proposing to amortize the entire $10.7 million deferral balance over a two-year period. The effect of removing the current temporary increment and adding the new increment results in a net increase of $2,450,511. Staff has reviewed the deferred accounts and verified the accuracy of the changes in amortization rates.

Earnings Review and 3% Test

Until 1999, as a matter of policy, the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. The Commission then adopted OAR 860-022-0070, which requires an annual spring earnings review in lieu of an earnings review related to prospective purchased gas cost changes. In addition, Section (8) of that same rule states that an earnings review is not applicable to amortization of deferred gas costs if the LDC assumes at least 33% 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 claimed this mechanism will provide customers lower costs over time than the 67/33 sharing mechanism, and the Commission approved a waiver of the earnings review related to amortization of deferred gas costs for the duration of the experimental period.

ORS 757.259 (6) and (7) states that the overall annual average rate impact of the amortizations authorized under the statute may not exceed 3% of the natural gas utility’s gross revenues for the proceeding calendar year, unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. To mitigate the overall impact of this rate increase, Avista proposes to amortize $10.7 million over a two-year period. Even in consideration of the extended amortization period, this exceeds the 3% cap by 0.7% of Avista's gross revenues for the proceeding calendar year. However, since postponing the adjustment to WACOG to comply with the stipulation in UG-153 has a large impact on the lag-time for the recovery of these costs, Staff finds that the rate increase is just and reasonable and recommends the Commission adopt the increase pursuant to ORS 757.259 (7).

UM 1099

In this filing, Avista requests reauthorization of deferrals pursuant to its automatic adjustment clause, the PGA mechanism. 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 deferral mechanism, effective October 1, 2004.

PROPOSED COMMISSION MOTION:

Avista Utilities' request for: 1) amortization of deferred accounts, base gas cost changes, and rate changes as proposed in Docket No. UG 159; 2) waiver of statutory notice to allow the associated tariff sheets included in Advice No. 04-03-G Supplemental to go into effect October 1, 2004; 3) reauthorization of deferred accounting for Avista Utilities' Purchased Gas Balancing Account mechanism, Schedule No. 464, for a two-year period beginning October 1, 2004; and 4) approval to exceed 3% of its gross revenues by 0.7% on its proposed two-year amortization of gas costs, be approved.

Attachments

2004 PGA UM 1162