ORDER NO. 05-859

ENTERED 07/18/05

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 903/AR 357

In the Matter of	)	
	)	
AVISTA UTILITIES	)	ORDER
	)	
2005 Spring Earnings Review.	)	

DISPOSITION: NO EARNINGS SHARED

On May 2, 2005, Avista Utilities (Avista) filed its 2004 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending December 31, 2004. Avista represented that the report was developed in a manner consistent with Order No. 99-272 and reflects adjustments appropriate to the Stipulated Agreement attached to Order 99-272.

At its July 12, 2005 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 adjusted earnings fall below the earnings threshold established in UM 903, resulting in no shared earnings.

ORDER

IT IS ORDERED that Staff's recommendation as stated in Appendix A is adopted.

Made, entered and effective JUL 1 8 2005.

BY THE COMMISSION:

Becky L. Beier

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 12, 2005

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ________N/A________

DATE: June 29, 2005

TO: Public Utility Commission

FROM: Carla Owings

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: AVISTA UTILITIES: (Docket No. UM 903/AR 357) 2005 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' 2004 earnings falling below the earnings threshold established in UM 903.

DISCUSSION:

Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357) established Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies; Avista Corporation (Avista or Company), Cascade Natural Gas Corporation and Northwest Natural Gas Corporation. The structure of earnings reviews was a primary issue addressed in these dockets. Originally, the earnings reviews were scheduled to sunset in 2002, however, in Order 03-198 (AR 449) the Commission extended earnings reviews for an additional four years to 2006.

The Commission adopted OAR 860-022-0070 along with a list of issues agreed upon by the parties in a Statement of Stipulated Issues. The Commission ordered various resolutions to deal with issues where no agreement was reached. The following 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.
- 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 2005 review, Avista's earnings threshold was 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. Order No. 98-543 was further modified to adjust the 2004 earnings threshold calculation, on an interim basis for 2005 and 2006, by twenty percent (20%) of any change in the risk free rate for the 12-month calendar year preceding the annual earnings review. This results in a threshold of 13.33 percent for Avista's 2005 spring earnings review.
- 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. The Commission approved the company's request to waive the fall earnings test. 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.

Avista's Earnings Review:

On May 2, 2005, Avista submitted its 2004 earnings report for the 12 months ended December 31, 2004. The Company states that its report was developed in a manner consistent with Commission Order No. 99-272 and reflects adjustments appropriate to the Stipulated Agreement attached to Order 99-272. The Company calculates its ROE as 10.79 percent after application of its Type 1 adjustments and before any adjustments for weather normalization. The Company's ROE calculation falls below the threshold of 13.33 percent authorized by the Commission.

Staff has reviewed the Company's 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 there should be no earnings shared in this filing due to Avista Utilities' 2004 earnings falling below the earnings threshold established in UM 903.

UM 903 Avista spring earnings review 2005.doc