

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903/AR 357

In the Matter of)
)
AVISTA CORPORATION) ORDER
)
2006 Spring Earnings Review.)

DISPOSITION: NO EARNINGS SHARED

On April 27, 2006, Avista Corporation (Avista) filed its 2005 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending December 31, 2005. 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 11, 2006 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 17 2006 .

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 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 in 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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 11, 2006**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: June 12, 2006

TO: Public Utility Commission

FROM: Carla Owings *CO*

THROUGH: Lee Sparling, Ed Busch and Judy Johnson *EB JJ*

SUBJECT: AVISTA CORPORATION: (Docket No. UM 903/AR 357) 2006 Spring Earnings Review.

STAFF RECOMMENDATION:

Staff recommends there be no earnings shared by Avista Corporation due to its earnings through December 31, 2005, 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.

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- Structure of Earnings Reviews: By May 1 each year, Local Distribution Companies (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 2006 review: Avista's earnings threshold was calculated as the sum of 10.25 percent, the ROE authorized for Avista by Commission Order No. 03-570, plus 200 basis points maximum authorized by Commission Order No. 05-1053; or 12.25 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 12.37 percent for Avista's 2006 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 10 percent of the earnings exceeding the threshold level will be shared with customers. The purpose of the fall earnings review is to determine whether or not Avista should absorb any of its deferrals.
- Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. However, Avista made a one-time election not to include a weather normalization adjustment in its spring earnings review filings. Avista implemented an experimental Gas Benchmark Mechanism in late 1999 relating to variations in gas costs and as a result, 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. On August 2, 2005, Avista filed a proposed new Schedule 462, Purchased Gas Cost Adjustment Provision - Oregon, in Advice No. 05-02-G which was adopted by the Commission on its consent agenda on August 16, 2005. Schedule 462

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is a temporary PGA mechanism, the terms of which reflect numerous discussions between Staff and the company. As set forth in the tariff, beginning October 1, 2005, the company will defer 90 percent of the difference between its monthly actual and estimated commodity cost of gas. Since this sharing level is less than the 67/33 percentage sharing prescribed under OAR 860-022-0070(8), the company is now subject to a fall earnings review, as well as the mandated spring earnings review, beginning in 2006. The purpose of the fall earnings review is to determine whether or not Avista should absorb any of its deferrals. At the time of the fall earnings review in 2006, Avista has agreed it would be at risk for not amortizing the amount of deferrals accumulated from October 1, 2005 through September 30, 2006, or returning to customers 80 percent of the overearnings above the threshold, whichever is less.¹

Avista's Earnings Review:

On April 27, 2006, Avista submitted its 2005 earnings report for the 12 months ended December 31, 2005. 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 11.54 percent prior to the application of its Type I and Type II adjustments pursuant to Avista's original one-time election not to include a weather normalization adjustment. The Company's ROE calculation falls below the threshold of 12.37 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:

There should be no earnings shared in this filing due to Avista Utilities' 2005 earnings falling below the earnings threshold established in UM 903.

UM 903 Avista spring earnings review 2006.doc

¹ See Order No. 05-1053.