ORDER NO. 09-281

ENTERED 07/22/09

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 903

In the Matter of AVISTA UTILITIES 2009 Spring Earnings Review	ORDER

DISPOSITION: NO EARNINGS SHARED

On April 21, 2009, Avista Utilities (Avista) filed its 2008 earnings report, with the Public Utility Commission of Oregon (Commission), for the 12 months ending December 31, 2008. Avista represented that the report was developed in a manner consistent with Order No. 99-272, as amended in Order No. 04-203 and in accordance with OAR 860-022-0070.

At its July 16, 2009, public meeting, the Commission adopted Staff's recommendation, attached as Appendix A and 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 docket 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 2 2 2009.

BY THE COMMISSION:

Becky L. Beier

Becky Beier
Commission Secretary

ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT 16
PUBLIC MEETING DATE: July ~~14~~, 2009

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: July 1, 2009

TO: Public Utility Commission

FROM: Deborah Garcia

THROUGH: Lee Sparling, Ed Busch, and Judy Johnson

SUBJECT: AVISTA UTILITIES: (Docket No. UM 903) 2009 Spring Earnings Review.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Avista Utilities' earnings for the 12 months ended December 31, 2008, fall below the earnings threshold established in UM 903 that determines when earnings must be shared with customers.

DISCUSSION:

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies – Northwest Natural, Cascade Natural Gas, and Avista Utilities. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were originally scheduled to sunset in 2002 but were extended twice, first until 2006 by Order No. 03-198 (AR 449) and then through 2008 by Order No. 07-019 (AR 512). Commission Order No. 08-504 (UM 1286) that adopted revisions to the current PGA mechanism also eliminated the sunset provision.[1]

The Commission's findings, as they apply to earnings reviews, are summarized below:

Annual Election

Not later than August 1st of each year, each Local Distribution Company (LDC) shall make an annual election for the applicable gas year beginning November 1st whether to

[1] The sunset provision was eliminated from OAR 860-022-0070 by Order No. 09-096 (AR 532).

choose 90/10[2] sharing or 80/20 sharing with a corresponding earnings review threshold. Avista elected a 90/10 sharing for the gas year that began November 1, 2008.

Spring Earnings Review

An earnings review will be performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review will apply to the sharing election made by the LDC the previous August (e.g., the 2008 election will apply to the 2009 Fiscal Year results of operations which are the subject of the 2010 spring earnings review); if earnings are found to be above a specified return on equity (ROE) level, a portion of those revenues will be booked to a deferred account.

The ROE Earnings Threshold

Beginning with the 2010 Spring Earnings Review, an LDC that elects 90-10 sharing will be subject to an earnings threshold 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets. An LDC that elects 80-20 sharing is subject to an earnings threshold 150 basis points above its ROE, adjusted in the same manner. However, for the current 2009 Spring Earnings Review, the earnings review is calculated using the method applied in last year's review. Accordingly, the earning threshold for Avista for the 2009 Spring Earnings review (2008 results of operations) is 11.94 percent.

Structure of Earnings Reviews

By May 1, each year, the LDC will file results of operations for the twelve 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 August 15. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.

Earnings Adjustments

Recorded results of operations will be adjusted for Type 1 adjustments as set forth in Order No. 99-272. Avista made a one-time election not to include a weather

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[2] Sharing of the variance between the LDC's weighted average cost of gas (WACOG) included in its rates and its actual WACOG. For example, 90/10 designates 90 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 percent is absorbed or retained by the LDC.
See Order 08-504 at 17. The earnings threshold is adjusted each year by 20 percent of any change in the risk free rate for the twelve-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c).

normalization adjustment in its spring 1999 earnings review filing and each subsequent annual filing.

Earnings Performance
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.

Effective Date of Rate Adjustment and Applicable Interest
Upon completion of the earnings review, any amount of earnings over the sharing dead band determined to be returned to customers will be booked to a deferred account. Interest shall apply beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.

Avista's Earnings Review
On April 21, 2009, Avista submitted its 2008 Results of Operations report for the 12 months ending December 31, 2008. The Company states that its report was developed in a manner consistent with Commission Order No. 99-272, as amended in Order No. 04-203 and in accordance with OAR 860-022-0070. Avista calculates its ROE as 4.58 percent after the application of its Type I adjustments excluding weather normalization.

Staff reviewed the Company's earnings report and concludes that Avista's reported ROE has been calculated correctly. Because Avista's adjusted ROE is below the authorized threshold of 12.45 percent, Avista should not be required to share earnings with its customers.

As required by OAR 860-022-0070(6), Staff submitted these findings to the parties in Docket No. UM 903 on June 10, 2009, and received no comments in response.

PROPOSED COMMISSION MOTION:

Accept Staff's finding that Avista Utilities' earnings for the 12 months ended December 31, 2008, fall below the earnings threshold established in UM 903 that determines when earnings must be shared with customers.