

ORDER NO. 14 373

ENTERED OCT 29 2014

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 267

In the Matter of

AVISTA CORPORATION, dba AVISTA
UTILITIES,

Purchased Gas Cost Adjustment.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at the special public meeting on October 28, 2014, to adopt Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

Dated this 29th day of Oct., 2014, at Salem, Oregon.

COMMISSIONER ACKERMAN WAS
UNAVAILABLE FOR SIGNATURE

Susan K. Ackerman
Chair



A handwritten signature in blue ink, appearing to read "John Savage".

John Savage
Commissioner

A handwritten signature in blue ink, appearing to read "Stephen M. Bloom".

Stephen M. Bloom
Commissioner

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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ITEM NO. 4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 28, 2014**

REGULAR CONSENT EFFECTIVE DATE November 1, 2014

DATE: October 17, 2014

TO: Public Utility Commission

FROM: Jorge Ordonez *JDO*

THROUGH: *JE* Jason Eisdorfer and Aster Adams *AA*

SUBJECT: AVISTA UTILITIES: (Docket No. UG 267/Advice No. 14-04-G) Reflects changes in the cost of purchased gas and the amortization rate for the Purchased Gas Adjustment (PGA) balancing account.

STAFF RECOMMENDATION:

Staff recommends that Avista Utilities' (Avista or Company) proposed tariff sheets in Docket No. UG 267/Advice No. 14-04-G be approved with an effective date of November 1, 2014.

DISCUSSION:

On July 31 and September 12, 2014, Avista submitted its annual PGA filings, which respectively comprise its initial filing (Initial 2014 PGA Filing)¹ and its supplemental filing (Supplemental 2014 PGA Filing).² In aggregate, the filings are commonly referred to as the 2014 PGA filing (2014 PGA Filing).

The 2014 PGA Filing comprises two parts: a forward-looking part (Projected Purchased Gas Cost for the 2014-2015 Gas Year) and a backward-looking part (True-Up of the 2013-2014 Gas Year).

The Projected Purchased Gas Cost for the 2014-2015 Gas Year projects the costs of natural gas for the upcoming gas year (i.e., 2014-2015 Gas Year)³ and results in the new rates set forth in Tariff Sheet 461.⁴ The True-Up of the 2013-2014 Gas Year trues

¹ See <http://edocs.puc.state.or.us/efdocs/UAA/ug267uaa16156.pdf>.

² See <http://edocs.puc.state.or.us/efdocs/UAC/ug267uac114744.pdf>.

³ The 2014-2015 Gas Year covers the period beginning on November 1, 2014, and ending on October 31, 2015.

⁴ Tariff Sheet 461 is titled "Purchased Gas Cost Adjustment Provision."

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up the costs of natural gas in the previous gas year (2013-2014 Gas Year)⁵ by comparing the amount collected from customers in that year with the actual costs incurred by the Company in the same year. Any over- or under-collection from customers in the 2013-2014 Gas Year, together with any over- or under-collection from previous years,⁶ is given back (in the case of over-collection) or surcharged (in the case of under-collection) to customers in the upcoming gas year. The True-Up of the 2013-2014 Gas Year results in the new rates set forth in Tariff Sheet 462.⁷

ANALYSIS

Projected Purchased Gas Cost for the 2014-2015 Gas Year (Tariff Sheet 461 or Rate Schedule 461).

The Projected Purchased Gas Cost for the 2014-2015 Gas Year comprises two rate components: 1) the commodity component rate and 2) the capacity or demand component rate. The rates for those components in \$ per therm are represented in Table 1.

Table 1: Projected Purchased Gas Cost for 2014-2015
 (in \$/Therm or as noted otherwise)

Item		Current Rate 2013-2014 Gas Year	Proposed Rate 2014-2015 Gas Year	Change (%)
Commodity	(A)	0.39869	0.41155	3.2%
Demand	(B)	0.21200	0.20914	-1.3%
Total Gas Cost	(C = A+B)	0.61069 ⁸	0.62069 ⁹	1.6%

Regarding the commodity component, the primary reason for the 3.2 percent rate increase of this component is that the winter of 2013-2014 was significant colder than

⁵ The 2013-2014 Gas Year covers the period beginning on November 1, 2013, and ending on October 31, 2014. However, per page 10 of Appendix A to Order No. 14-238 in Docket No. UM1286 (See: <http://apps.puc.state.or.us/orders/2014ords/14-238.pdf>), all deferrals to be amortized into rates will be based on June deferral balances plus interest for July-October, and the deferrals that occur after June will be carried forward to the next PGA period.

⁶ Any over-collection or under-collection from previous years is the result of the fact that actual volumetric sales of natural gas will always be different from forecasted volumetric sales. Since amortizations are intended to be recovered in volumetric forecasted sales, a remaining balance will always be present.

⁷ Tariff Sheet 462 is titled "Gas Cost Rate Adjustment."

⁸ See the Supplemental Eight Revision Sheet 461 issued on October 9, 2013, "Rate" section (See <http://edocs.puc.state.or.us/efdocs/UAC/ug247uac144652.pdf>) approved by the Public Utility Commission of Oregon in Order No. 13-392 of Docket No. UG 247 at <http://apps.puc.state.or.us/orders/2013ords/13-392.pdf>.

⁹ See the Supplemental Ninth Revision Sheet 461 attached to Avista's Supplemental 2014 PGA Filing, "Rate" section, at <http://edocs.puc.state.or.us/efdocs/UAC/ug267uac114744.pdf>.

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normal not only in the western United States but nationally. The colder than normal weather led to an increase in overall natural gas demand and a heavy reliance on natural gas storage reserves. Natural gas storage both nationally and in the west were drawn down well below their five year average balance. The cold weather and increased demand increased wholesale natural gas prices both in the winter as well as in the summer as more natural gas is required to replenish storage facilities. While prices are currently forecast to remain higher throughout the upcoming winter, natural gas prices in future winter periods are expected to be below the upcoming winter. As a result, the market prices indicate that the storage imbalance issue is temporary, and the long-term trend of lower priced gas should return.¹⁰

As for the demand component,^{11, 12} the Company is proposing only a slight rate decrease of approximately 1.3 percent. These costs are relatively stable and no significant pipeline rate changes are anticipated for the upcoming PGA year. The primary reason for the decrease in the demand rate is due to the cost of the fixed price contract being spread over a slightly higher level of natural gas retail sales.¹³

Avista's 2014 PGA Filing meets the PGA Filing Guidelines and the Natural Gas Portfolio Guidelines.¹⁴ Avista has demonstrated its adherence to these guidelines with regard to natural gas supplies and financial hedges.¹⁵

¹⁰ See page 2 of 6 of Avista's Initial 2014 PGA Filing at:
<http://edocs.puc.state.or.us/efdocs/UAA/ug267uaa16156.pdf>.

¹¹ Demand costs reflect the cost of pipeline transportation to the Company's system, as well as fixed costs associated with natural gas storage.

¹² Schedule 440 Interruptible Customers is the rate schedule to which this rate does not apply. Interruptible customers are customers under the Interruptible Natural Gas Schedule 440. This rate schedule is applicable to commercial and industrial customers who are subject to interruptions in capacity and supply. By choosing to be interruptible, the Company does not secure firm interstate pipeline capacity for these customers. As a result, customers served on this rate schedule do not pay transportation or demand charges.

¹³ See page 3 of 6 of Avista's Initial 2014 PGA Filing at:
<http://edocs.puc.state.or.us/efdocs/UAA/ug267uaa16156.pdf>.

¹⁴ The "PGA Filing Guidelines" and "Natural Gas Portfolio Development" were acknowledged by the Commission in Order No. 09-248 and corrected in Order No. 09-263. Modifications to these guidelines were acknowledged by the Commission in Order No. 10-197, Order No. 11-196, and Order No. 14-238 in Docket No. UM 1286.

¹⁵ Accepted "best practices" for the purchase of natural gas supply by local distribution companies (LDCs) is portfolio construction that balances the objectives of reliability, cost, and price volatility using the tools of diversity, flexibility and balance. The "Natural Gas Portfolio Development Guidelines" (Portfolio Guidelines) implement these "best practices" for Oregon LDCs. The Portfolio Guidelines require gas utilities to include certain information related to their gas supply portfolio with their annual PGA filing. This information allows the Commission to determine the prudence of the utility's costs. Staff's analysis of and conclusions regarding Avista's natural gas supply portfolio and related purchasing strategies and actions are based on the Portfolio Guidelines.

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True-Up of the 2013-2014 Gas Year (Tariff Sheet 462 or Rate Schedule 462)

Table 2: *True-Up of the 2013-2014 Gas Year*¹⁶
 (in \$/Therm or as noted otherwise)

Item		Current Rate	Proposed Rate	Change (%)
Commodity Amortization	(D)	-0.00728	0.05099	800% ¹⁷
Demand Amortization	(E)	-0.07737	-0.05226	32% ¹⁸
Total Amortization	(F=D+E)	-0.08465 ¹⁹	-0.00127 ²⁰	98% ²¹

As for the commodity amortization, the new surcharge rate of \$0.05099 per therm reflects a surcharge of approximately \$4.15 million, which comprises approximately \$3.60 million²² of under-collections in the period from November 2013 to June 2014 and approximately \$0.55 million²³ of under-collections from prior years. The \$3.60 million figure is after accounting for the commodity cost variance sharing between the Company and customers as required in No. 08-504 in Docket No. UM 1286.²⁴ For the reasons mentioned previously in this memo,²⁵ actual wholesale natural gas prices were higher than the level approved in the Company's 2013 PGA.

As for the Demand Amortization portion, the Company is currently refunding \$0.07737 per therm to customers (except Rate Schedule 440)²⁶. The Company proposes to reduce the amount to be refunded to customers to \$0.05226 per therm (approximately a 32 percent reduction from what has previously been refunded). The new refund rate

¹⁶ Positive numbers representsurcharges; negative numbers or numbers in parentheses represent refunds.

¹⁷ Increase of surcharge rate of approximately eightfold.

¹⁸ Reduction of refund of approximately 32 percent.

¹⁹ See the Supplemental Third Revision Sheet 462 issued on October 9, 2013, "Rate" section, approved by the Public Utility Commission of Oregon in Order No. 13-392 of Docket No. UG 247 at: https://www.avistautilities.com/services/energypricing/or/curgas/Documents/OR_462.pdf.

²⁰ See Fourth Revision Sheet 462 attached to Avista's Initial 2014 PGA Filing, "Rate" section, <http://edocs.puc.state.or.us/efdocs/UAA/ug267uaa16156.pdf>. Also see the Supplemental Fourth Revision Sheet 462 attached to Avista's Supplemental 2014 PGA Filing.

²¹ Reduction of refund of 98 percent.

²² See page 5 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "2" Column "I").

²³ See page 5 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "1" Column "I").

²⁴ For the 2013-2014 Gas Year, the Company elected a 90/10 variance sharing on August 5, 2013. See <http://edocs.puc.state.or.us/efdocs/HAD/um1286had8853.pdf>.

²⁵ See the "commodity" discussion part of this memo.

²⁶ Schedule 440 refers to Interruptible Service Customer. This rate schedule is applicable to commercial and industrial customers who are subject to interruptions in capacity and supply. By choosing to be interruptible, the Company does not secure firm interstate pipeline capacity for these customers. As a result, customers served on this rate schedule do not pay transportation or demand charges.

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reflects the refund of \$4.04 million, which comprises approximately \$2.21 million²⁷ of over-collections in the period from November 2013 to June 2014 and \$1.83 million²⁸ from previous years. The new refund of \$4.04 million is primarily the result of the unamortized balance from the 2013 PGA, as the new cut-off date of June 30 is to be used for PGA amortizations balances.

Pursuant to ORS 757.259 and OAR 860-027-0300, the annual average rate impact of the amortizations authorized under the statutes may not exceed three percent of the natural gas utility's gross revenues for the preceding calendar year unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. As shown on Attachment C of this public meeting memo, the resulting annual average rate impact from the PGA amortization is 0.8 percent²⁹ and falls within the requirements of the statute.

Table 3: *Overall Revenue and Rate Impact*
 (in \$ or as noted otherwise)

Schedule	Description	Total Revenues at Current Rates ^{30, 31}	Revenue Increase ³²	Change (%) ³³
410	Residential	58,136,705	4,522,078	7.78
420	General	25,982,745	2,419,736	9.31
424	Large General	3,053,131	404,316	13.24
440	Interruptible	1,990,047	282,428	14.19
444	Seasonal	181,228	23,304	12.86
456	Int. Transportation	3,163,529	33,372	1.05
	Overall	92,789,625 ³⁴	7,685,235	8.28

²⁷ See page 5 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "7" Column "i").

²⁸ See page 5 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "6" Column "i").

²⁹ The exact figure shown in Attachment C of this public meeting memo is 0.7886 percent.

³⁰ See column "Present Annual Revenue" of page 19 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing.

³¹ "Total Revenues" include the revenues from: 1) base rates, 2) gas revenues (Purchased Gas Cost Adjustment Provision; Schedule 461), 3) amortizations (Gas Cost Rate Adjustment; Schedule 462), 4) intervenor funding (Intervenor Funding Grants – Oregon; Rate Schedule 476), and 5) low income assistance (Residential Low Income Rate Assistance Program – Oregon; Schedule 493).

³² See column "Total Incremental Change in Revenue" of Attachment A of this public meeting memo.

³³ See column "Total Change – Proposed Annual Change" of page 19 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing.

³⁴ The total of \$92,789,625 does not equal the sum of the figures above this number, because it includes revenues of \$282,240 from Special Contracts. See page 19 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "Special Contracts" Column "Present Annual Revenue").

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This 2014 PGA Filing reflects a revenue increase of \$7.73 million,³⁵ or approximately 8.33³⁶ percent effective November 1, 2014, due to gas costs (Purchased Gas Cost Adjustment Provision; Schedule 461) and amortization of previous deferrals (Gas Cost Rate Adjustment; Schedule 462). Combining the impact of this filing with the two other regulatory filings filed on July 31, 2014 (i.e., Schedule 476, Intervenor Funding Schedule, Advice No. 14-05-G; and Schedule 478, DSM Cost Recovery, Advice No. 13-06-G), results in a revenue increase of \$7.69 million,³⁷ or 8.28 percent,³⁸ as represented in Table 3 above.

With these changes, effective November 1, 2014, the monthly bill of a residential customer using an average of 47 therms per month will increase by \$4.36, or 7.8 percent, from \$55.97 to \$60.33.³⁹

PROPOSED COMMISSION MOTION:

Avista's application requesting gas cost changes for commodity and transportation, as proposed in Docket No. UG 267 be allowed to go into effect on November 1, 2014, along with the associated tariff sheets related to Advice No. 14-04-G.

Reg4-Avista 2014 PGA PMM

³⁵ \$7.73 million is the difference *between* the revenues at proposed rates (\$51,222,098 = \$51,127,535 + \$98,563) *and* the revenues at current rates (\$43,498,072 = \$50,279,393 - \$6,781,321) only for gas revenues (Purchased Gas Cost Adjustment Provision; Schedule 461) and amortizations (Gas Cost Rate Adjustment; Schedule 462). See Attachment B of this public meeting memo.

³⁶ See page 19 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "Total Annual Revenues." Column "PGA Only - Proposed Annual Change".

³⁷ See Attachment A of the Company's Supplemental 2014 PGA Filing, row "Total," column "Total Incremental Change in revenue".

³⁸ See page 19 of 36 in Avista's workpapers filed with its Supplemental 2014 PGA Filing (i.e., row "Total Annual Revenues." Column "Proposed Annual Change".

³⁹ See Attachment D of this public meeting memo.

Avista Corporation					
2014 PGA					
Incremental Revenue Change by Customer Rate Schedule					
Attachment A					
Adjustment Schedule No. & Description		Gas Cost & Adjustment Schedule Revenue at Current ¹	Gas Cost & Adjustment Revenue at Proposed	Total Incremental Change in Revenue	% Contribution to Total Incremental Change
410	Residential	\$ 26,684,024	\$ 31,206,102	\$ 4,522,078	58.84%
420	Small Commercial & Industrial	\$ 14,327,891	\$ 16,747,628	\$ 2,419,736	31.49%
424	Large Commercial & Industrial	\$ 2,394,062	\$ 2,798,378	\$ 404,316	5.26%
440	Interruptible for Large Commercial and Industrial	\$ 1,535,967	\$ 1,818,395	\$ 282,428	3.67%
444	Seasonal	\$ 137,994	\$ 161,299	\$ 23,304	0.30%
456	Transportation	\$ 15,598	\$ 48,970	\$ 33,372	0.43%
Total		\$ 45,095,537	\$ 52,780,772	\$ 7,685,235	100.00%
Note:					

¹ Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted therms). There will be small differences with the Advice filings.

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Avista Corporation						
2014 PGA						
Incremental Revenue Change by Adjustment Schedule						
Attachment B						
Customer Rate Schedule	Description	Gas Cost & Adjustment Schedule Total Revenue at Current ¹	Gas Cost & Adjustment Schedule Total Revenue at Proposed	Total Incremental Change in Revenue	Incremental Percentage Change by Rate	Percent Contribution to Total Incremental Change
461	Purchase Gas Adjustment	\$ 50,279,393	\$ 51,127,535	\$ 848,142	1.7%	11.04%
462	Purchase Gas Cost Amortization	\$ (6,781,321)	\$ 98,563	\$ 6,879,884	-101.5%	89.52%
476	Intervenor Funding	\$ 66,623	\$ 127,538	\$ 60,915	91.4%	0.79%
478	Demand Side Management	\$ 1,530,845	\$ 1,427,139	\$ (103,706)	-6.8%	-1.35%
				\$ -		
		\$ 45,095,540	\$ 52,780,775	\$ 7,685,235		100.00%
Notes:						
¹ Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted therms). There will be small differences with the Advice filings.						

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Avista Corporation			
2014 PGA			
Three Percent Test			
Attachment C			
<i>(includes revenue conversion)</i>			
	Surcharge	Credit	
Prior Period Gas Cost Deferral True-Up	\$ 98,921	\$ -	0.0525%
Non-Gas Cost Amortization			
Intervenor Funding	\$ 123,749	\$ -	0.0657%
Demand Side Management	\$ 1,385,866	\$ -	0.7361%
Total	\$ 1,608,536	\$ -	
Total Proposed Amortization			
<i>(Surcharge Less Credits)</i>			\$ 1,608,536
Less intervenor Funding ¹			\$ (123,749)
Net Proposed Amortization			
<i>(subject to the 3% test)</i>			\$ 1,484,787
Utility Gross Revenue 2014²			\$ 188,283,342
3% of Utility Gross Revenue			\$ 5,648,500
Allowed Amortization			\$ 1,484,787
Allowed Amortization as % of Gross Revenues			0.7886%
¹ Intervenor Funding is excluded from the result of the 3% test pursuant to ORS 757.259(4).			
² Unadjusted general revenues as shown in the most recent Results of Operations.			

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Avista Corporation
2014 PGA
Comparison of Proposed Rate and Bill Increases for Oregon Local Distribution Companies by Class of Service (November 2014 PGA)
Attachment D

Source: Tab - Input Tariff

Class of Service	Rate Schedule	RATE IMPACTS					Average January Therms	Customer Charge	RESIDENTIAL BILL IMPACTS								
		Current Rate per Therm	Proposed Rate per Therm	Change Rate per Therm	%-Change Rate per Therm	Current January Bill			Proposed January Bill	Change January Bill	%-Change January Bill	Annual Therms/Month	Customer Charge	Current Monthly Bill	Proposed Monthly Bill	Change Monthly Bill	%-Change Monthly Bill
Residential																	
Avista	410	\$1.02072	\$1.11510	0.09257	9.10%	95	\$8.00	\$104.97	\$115.76	\$10.79	10.3%	47	\$8.00	\$5.97	\$6.33	\$4.36	7.3%
Cascade	101																
NW Natural	2																
Commercial																	
Avista	420	\$0.92670	\$1.01678	0.09208	9.9%												
Cascade	104																
NW Natural	3																
Industrial																	
Avista	424	\$0.68431	\$0.77639	0.09208	13.5%												
Cascade	105																
NW Natural	311SF																
Interruptible																	
Avista	440	\$0.50768	\$0.57593	0.07705	14.2%												
Cascade	170																
NW Natural	32ISI																
CURRENT																	
	Current Base Rate 410	Schedule 461	Schedule 462	Schedule 475	Schedule 478	Schedule 493	New Billing Rate	Basic Charge									
410	\$ 0.46998	\$ 0.61069	\$ (0.08465)	\$ 0.00101	\$ 0.01919	\$ 0.00451	\$ 1.02073	\$ 8.00									
420	\$ 0.38147	\$ 0.61069	\$ (0.08465)	\$ -	\$ 0.01919	\$ -	\$ 0.92670	\$ 12.00									
424	\$ 0.13908	\$ 0.61069	\$ (0.08465)	\$ -	\$ 0.01919	\$ -	\$ 0.68431	\$ 50.00									
440	\$ 0.11584	\$ 0.39869	\$ (0.00728)	\$ 0.00043	\$ -	\$ -	\$ 0.50768	\$ -									
PROPOSED																	
	Current Base Rate 410	Schedule 461	Schedule 462	Schedule 476	Schedule 478	Schedule 493	New Billing Rate	Basic Charge									
410	\$ 0.46998	\$ 0.62069	\$ (0.00127)	\$ 0.00150	\$ 0.01789	\$ 0.00451	\$ 1.11330	\$ 8.00									
420	\$ 0.38147	\$ 0.62069	\$ (0.00127)	\$ -	\$ 0.01789	\$ -	\$ 1.01878	\$ 12.00									
424	\$ 0.13908	\$ 0.62069	\$ (0.00127)	\$ -	\$ 0.01789	\$ -	\$ 0.77639	\$ 50.00									
440	\$ 0.11584	\$ 0.41155	\$ 0.05099	\$ 0.00135	\$ -	\$ -	\$ 0.57973	\$ -									

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