

ORDER NO. 16 388

ENTERED OCT 18 2016

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UG 314

In the Matter of

AVISTA CORPORATION dba AVISTA  
UTILITIES,

Reflects Changes in the Cost of Purchased  
Gas and the Amortization Rate for the  
Purchased Gas Adjustment (PGA) Balancing  
Account.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at the October 18, 2016 Special Public Meeting, to adopt Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

Dated this 18 day of October, 2016, at Salem, Oregon.



**Lisa D. Hardie**  
Chair



**John Savage**  
Commissioner



**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 Circuit Court for Marion County in compliance with ORS 183.484.

## ITEM NO. 4

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 18, 2016

REGULAR X CONSENT \_\_\_\_\_ EFFECTIVE DATE November 1, 2016

DATE: October 4, 2016

TO: Public Utility Commission

FROM:  Lisa Gorsuch

THROUGH:  Jason Eisdorfer and  Michael Dougherty

SUBJECT: AVISTA UTILITIES: (Docket No. UG 314/Advice No. 16-08-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 approval of Avista Corporation's, dba Avista Utilities' (Avista or Company), 2016 annual Purchase Gas Adjustment (PGA) clause filings, and recommends that the Company's proposed tariff sheets in Docket No. UG 314/Advice No. 16-08-G be approved with an effective date of November 1, 2016.

**DISCUSSION:**Issue

Whether the Commission should approve Avista's 2016 annual PGA along with the tariff sheet revisions proposed by the Company in Docket No. UG 314/Advice No. 16-08-G.

Applicable Law

Avista makes its PGA filing pursuant to ORS 757.259(2)(e), OAR 860-027-0300(4), and Commission Order No. 14-238 [Docket No. UM 1286(3)]. ORS 757.259(2)(e) and OAR 860-027-0300(4) allow the Commission to authorize deferred accounting treatment for Avista's PGA filing. The PGA mechanism was originally established by Order No. 89-1046 to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings through open-docket UM 1286.<sup>1</sup> Order No. 14-238 is the most recent of these orders which set out

<sup>1</sup> PGA Guidelines were acknowledged by the Commission in Docket No. UM 1286, Order No. 09-248, on June 23, 2009. The Guidelines in Docket No. UM 1286 have been modified three different times since they were first acknowledged by the Commission, in Order No. 10-197, in Order No. 11-196, and in Order No. 14-238.

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the Commission's procedures and requirements concerning the processing of PGA filings.

Discussion and Analysis

On July 29 and September 9, 2016, Avista submitted its annual PGA filings, which respectively comprise its initial filing (Initial 2016 PGA Filing)<sup>2</sup> and its supplemental filing (Supplemental 2016 PGA Filing).<sup>3</sup> In aggregate, the filings are commonly referred to as the 2016 PGA filing (2016 PGA Filing). The 2016 PGA Filing comprises two parts: a forward-looking part (Projected Purchased Gas Cost for the 2016-2017 Gas Year) and a backward-looking part (True-Up of the 2015-2016 Gas Year).

The Projected Purchased Gas Cost for the 2016-2017 Gas Year projects the costs of natural gas for the upcoming gas year (i.e., 2016-2017 Gas Year)<sup>4</sup> and results in the new rates set forth in Tariff Sheet 461.<sup>5</sup> The True-Up of the 2015-2016 Gas Year trues up the costs of natural gas in the previous gas year (2015-2016 Gas Year)<sup>6</sup> 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 2015-2016 Gas Year, together with any over- or under-collection from previous years,<sup>7</sup> 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 2015-2016 Gas Year results in the new rates set forth in Tariff Sheet 462.<sup>8</sup>

Projected Purchased Gas Cost for the 2016-2017 Gas Year (Tariff Sheet 461 or Rate Schedule 461).

The Projected Purchased Gas Cost for the 2016-2017 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.

<sup>2</sup> See <http://edocs.puc.state.or.us/efdocs/UAA/uaa9308.pdf>

<sup>3</sup> See <http://edocs.puc.state.or.us/efdocs/UAC/ug314uac8157.pdf>

<sup>4</sup> The 2016-2017 Gas Year covers the period beginning on November 1, 2016, and ending on October 31, 2017.

<sup>5</sup> Tariff Sheet 461 is titled "Purchased Gas Cost Adjustment Provision."

<sup>6</sup> The 2015-2016 Gas Year covers the period beginning on November 1, 2015, and ending on October 31, 2016. 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.

<sup>7</sup> 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.

<sup>8</sup> Tariff Sheet 462 is titled "Gas Cost Rate Adjustment."

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**Table 1: Projected Purchased Gas Cost for 2016-2017**  
 (in \$/Therm or as noted otherwise)

Item		Current Rate 2015-2016 Gas Year	Proposed Rate 2016-2017 Gas Year	Change
Commodity	(A)	0.27342	0.24529	-0.02813
Demand	(B)	0.19906	0.19759	-0.00147
<b>Total Gas Cost</b>	<b>(C = A+B)</b>	<b>0.47248<sup>9</sup></b>	<b>0.44288<sup>10</sup></b>	<b>-0.0296</b>

Regarding the commodity component, the primary reason for the 2.8 cents per therm rate decrease of this component is, like previous heating seasons, the winter of 2015-2016 resulted in an increase in natural gas supply coupled with an overall reduction in customer demand. The winter of 2015-2016 was significantly warmer than normal, leading to lower customer demand, which led to reduced wholesale natural gas prices in the winter and spring. The downward pressure on wholesale prices has continued even after the winter period due to the abundance of natural gas in storage and continued high natural gas production levels.

The demand component is relatively flat.<sup>11,12</sup> The Company is proposing only a slight rate decrease of approximately 0.01 cents per therm.

Avista's 2016 PGA Filing meets the PGA Filing Guidelines and the Natural Gas Portfolio Guidelines.<sup>13</sup> Avista has demonstrated its adherence to these Guidelines with regard to natural gas supplies and financial hedges.<sup>14</sup> Staff's conclusions were supported by the

<sup>9</sup> See the Supplemental Tenth Revision Sheet 461 issued on September 10, 2015, "Rate" section (See [https://www.avistautilities.com/services/energypricing/or/curgas/Documents/OR\\_461.pdf](https://www.avistautilities.com/services/energypricing/or/curgas/Documents/OR_461.pdf) approved by the Public Utility Commission of Oregon in Order No. 15-322 of Docket No. UG 289 at <http://apps.puc.state.or.us/orders/2015ords/15-322.pdf>).

<sup>10</sup> See the Supplemental Ninth Revision Sheet 461 attached to Avista's Supplemental 2016 PGA Filing, "Rate" section, at <http://edocs.puc.state.or.us/efdocs/UAC/ug314uac8157.pdf>.

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

<sup>12</sup> 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.

<sup>13</sup> 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.

<sup>14</sup> 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

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Company's comprehensive work papers and by review and discussion as part of the quarterly meetings.

True-Up of the 2015-2016 Gas Year (Tariff Sheet 462 or Rate Schedule 462)

**Table 2: True-Up of the 2015-2016 Gas Year<sup>15</sup>**  
 (in \$/Therm or as noted otherwise)

Item		Current Rate	Proposed Rate	Change
Commodity Amortization	(D)	-0.04927	-0.08273	-0.03346
Demand Amortization	(E)	0.02078	0.01251	-0.00827
<b>Total Amortization</b>	<b>(F=D+E)</b>	<b>-0.02849<sup>16</sup></b>	<b>-0.07022<sup>17</sup></b>	<b>-0.04173</b>

As for the commodity amortization, the new rebate rate of \$0.08273 per therm reflects a refund of approximately \$6.93 million, which comprises approximately \$5.76 million<sup>18</sup> of over-collections in the period from November 2015 to June 2016 and approximately \$1.17 million<sup>19</sup> of over-collections from prior years. The \$5.76 million figure is after accounting for the commodity cost variance sharing between the Company and customers as required by Order No. 08-504 in Docket No. UM 1286.<sup>20</sup> For the reasons mentioned previously in this memo,<sup>21</sup> actual wholesale natural gas prices were lower than the level approved in the Company's 2014 PGA.

As for the Demand Amortization portion, the Company is currently surcharging \$0.02078 per therm to customers (except Rate Schedule 440).<sup>22</sup> The Company

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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 in Docket No. UM 1286.

<sup>15</sup> Positive numbers represent surcharges; negative numbers or numbers in parentheses represent refunds.

<sup>16</sup> See the Supplemental Fifth Revision Sheet 462 issued on September 10, 2015, "Rate" section, approved by the Public Utility Commission of Oregon in Order No. 15-322 of Docket No. UG 289 at: <http://apps.puc.state.or.us/orders/2015ords/15-322.pdf>.

<sup>17</sup> See the Supplemental Fifth Revision Sheet 462 attached to Avista's Supplemental 2016 PGA Filing, <http://edocs.puc.state.or.us/efdocs/UAC/ug314uac8157.pdf>.

<sup>18</sup> See page 6 of 28 in Avista's workpapers filed with its Supplemental 2015 PGA Filing (i.e., row "2" Column "I").

<sup>19</sup> See page 6 of 28 in Avista's workpapers filed with its Supplemental 2016 PGA Filing (i.e., row "1" Column "I").

<sup>20</sup> For the 2016-2017 Gas Year, the Company elected a 90/10 variance sharing on June 22, 2016. See <http://edocs.puc.state.or.us/efdocs/HAD/um1286had16225.pdf>

<sup>21</sup> See the "commodity" discussion part of this memo.

<sup>22</sup> 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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proposes to reduce the amount to be charged to customers to \$0.01251 per therm. The new surcharge rate reflects the surcharge of \$1 million, which comprises approximately \$275,828<sup>23</sup> of an under-collection in the period from November 2015 to June 2016 and an under-collection of \$687,915<sup>24</sup> from previous years.

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 and four other filings<sup>25</sup> is 2.6 percent<sup>26</sup> 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 <sup>27, 28</sup>	Revenue Decrease <sup>29</sup>	Change (%) <sup>30</sup>
410	Residential	63,090,463	-3,577,704	-5.67
420	General	28,455,892	-1,960,317	-6.89
424	Large General	2,445,093	-285,942	-11.69
440	Interruptible	1,426,177	-251,638	-17.64
444	Seasonal	171,014	-19,541	-11.43
456	Int. Transportation	3,266,597	59,735	1.83
<b>Overall</b>		<b>99,155,266<sup>31</sup></b>	<b>-6,035,407</b>	<b>-6.09</b>

<sup>23</sup> See page 6 of 28 in Avista's work papers filed with its Supplemental 2016 PGA Filing (i.e., row "7" Column "I").

<sup>24</sup> See page 6 of 28 in Avista's work papers filed with its Supplemental 2016 PGA Filing (i.e., row "6" Column "I").

<sup>25</sup> Schedule 476, Intervenor Funding, Docket No. UG 315/Advice No. 16-09-G; Schedule 477, Residual Accounts, Docket No. UG 316/Advice No. 16-10-G; Schedule 478, DSM Cost Recovery, Docket No. UG 317/Advice No. 16-11-G; and Schedule 479, Senate Bill 408 Cost Recovery, Docket No. UG 318/Advice No. 16-12-G.

<sup>26</sup> The exact figure is shown in Attachment C of this public meeting memo.

<sup>27</sup> See column "Present Annual Revenue" of page 20 of 28 in Avista's work papers filed with its Supplemental 2016 PGA Filing.

<sup>28</sup> "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).

<sup>29</sup> See column "Total Incremental Change in Revenue" of Attachment A of this public meeting memo.

<sup>30</sup> See column "Total Change – Proposed Annual Change" of page 20 of 28 in Avista's work papers filed with its Supplemental 2016 PGA Filing.

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Conclusion

This 2016 PGA Filing reflects a revenue decrease of \$5.93 million,<sup>32</sup> or approximately 6.0 percent<sup>33</sup> effective November 1, 2016, 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 four other regulatory filings filed on July 29, 2016 (i.e., Schedule 476, Intervenor Funding, Advice No. 16-09-G; Schedule 477, Residual Accounts, Advice No. 16-10-G; Schedule 478, DSM Cost Recovery, Advice No. 16-11-G; and Schedule 479, Senate Bill 408 Cost Recovery, Advice No. 16-12-G), results in a revenue decrease of \$6.03 million,<sup>34</sup> or -6.09 percent,<sup>35</sup> as represented in Table 3 above.<sup>36</sup>

With these changes, effective November 1, 2016, the monthly bill of a residential customer using an average of 46 therms per month will decrease by \$3.36, or -5.7 percent, from \$59.21 to \$55.85.<sup>37</sup>

**PROPOSED COMMISSION MOTION:**

Approve Avista's application requesting gas cost changes for commodity and transportation, as proposed in Docket No. UG 314, with an effective date of November 1, 2016, along with the associated tariff revisions in Advice No. 16-08-G.

Avista 2016 PGA

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<sup>31</sup> The total of \$99,155,266 does not equal the sum of the figures above this number, because it includes revenues of \$300,030 from Special Contracts. See page 20 of 29 in Avista's work papers filed with its Supplemental 2016 PGA Filing (i.e., row "Special Contracts" Column "Present Annual Revenue").

<sup>32</sup> \$5.93 million is the difference *between* the revenues at proposed rates *and* the revenues at current rates 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.

<sup>33</sup> See page 20 of 28 in Avista's work papers filed with its Supplemental 2016 PGA Filing (i.e., row "Total Annual Revenues." Column "PGA Only - Proposed Annual Change."

<sup>34</sup> See Attachment A of the Company's Supplemental 2016 PGA Filing, row "Total," column "Total Incremental Change in revenue."

<sup>35</sup> See page 20 of 28 in Avista's work papers filed with its Supplemental 2016 PGA Filing (i.e., row "Total Annual Revenues." Column "Proposed Annual Change."

<sup>36</sup> The amounts shown in Table 3 include base rates, while the amounts shown in Attachments A and B to this memo are incremental changes without base rates.

<sup>37</sup> See Attachment D of this public meeting memo.

Avista Corporation					
2016 PGA					
Incremental Revenue Change by Customer Rate Schedule					
Attachment A					
Adjustment Schedule No. & Description		Gas Cost & Adjustment Schedule Revenue at Current <sup>1</sup>	Gas Cost & Adjustment Revenue at Proposed	Total Incremental Change in Revenue	% Contribution to Total Incremental Change
410	Residential	\$ 25,160,591	\$ 21,582,886	\$ (3,577,704)	59.28%
420	Small Commercial & Industrial	\$ 13,311,525	\$ 11,351,208	\$ (1,960,317)	32.48%
424	Large Commercial & Industrial	\$ 1,860,728	\$ 1,574,786	\$ (285,942)	4.74%
440	Interruptible for Large Commercial and Industrial	\$ 938,064	\$ 686,425	\$ (251,639)	4.17%
444	Seasonal	\$ 125,793	\$ 106,253	\$ (19,540)	0.32%
456	Transportation	\$ (9,001)	\$ 50,734	\$ 59,735	-0.99%
Total		\$ 41,387,700	\$ 35,352,292	\$ (6,035,407)	100.00%
Note:					
<sup>1</sup> 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.					



Avista Corporation						
2016 PGA						
Incremental Revenue Change by Adjustment Schedule						
Attachment B						
Customer Rate Schedule	Description	Gas Cost & Adjustment Schedule Total Revenue at Current <sup>1</sup>	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	\$ 38,729,585	\$ 36,257,166	\$ (2,472,418)	-6.4%	40.97%
462	Purchase Gas Cost Amortization	\$ (2,472,682)	\$ (5,932,329)	\$ (3,459,648)	-139.9%	57.32%
469	Public Purposes	\$ 3,071,696	\$ 3,071,696	\$ -	0.0%	0.00%
476	Intervenor Funding	\$ 79,398	\$ 145,620	\$ 66,222	83.4%	-1.10%
477	Residual Account	\$ -	\$ (7,111)	\$ (7,111)	0.0%	0.12%
478	Demand Side Management	\$ 1,759,573	\$ 1,517,750	\$ (241,823)	-13.7%	4.01%
479	SB 408	\$ -	\$ 79,371	\$ 79,371	0.0%	-1.32%
493	LIRAP	\$ 220,129	\$ 220,129	\$ -	0.0%	0.00%
		\$ 41,387,699	\$ 35,352,292	\$ (6,035,407)		100.00%
Notes:						
<sup>1</sup> 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 terms). There will be small differences with the Advice filings.						

Avista Corporation				
2016 PGA				
Three Percent Test				
Attachment C				
(includes revenue conversion)				
	Surcharge	Rebate		
Prior Period Gas Cost Deferral True-Up		\$ 5,932,808	0.0000%	
<b>Non-Gas Cost Amortization</b>				
Intervenor Funding (Advice No. 16-09-G)	\$ 145,620	\$ -	0.0876%	
Residual Account (Advice No. 16-10-G)		\$ 7,111		
Demand Side Management (Advice No. 16-11-G)	\$ 1,517,750			
Senate Bill 408 (Advice No. 16-12-G)	\$ 79,371		0.0478%	
<b>Total</b>	<b>\$ 1,742,741</b>	<b>\$ 5,939,919</b>	<b>1.0489%</b>	
<b>Total Proposed Amortization</b>				
(Surcharge Less Credits)				\$ (4,197,178)
Less Intervenor Funding <sup>1</sup>				\$ (145,620)
<b>Net Proposed Amortization</b>				
(subject to the 3% test)				\$ (4,342,798)
<b>Utility Gross Revenue 2015<sup>2</sup></b>				\$ 166,153,077
<b>3% of Utility Gross Revenue</b>				\$ 4,984,592
<b>Allowed Amortization</b>				\$ (4,342,798)
<b>Allowed Amortization as % of Gross Revenues</b>				0.0000%
<sup>1</sup> Intervenor Funding is excluded from the result of the 3% test pursuant to ORS 757.259(4).				
<sup>2</sup> Total Gas Revenues as shown in YE 2015 Results of Operations.				

Tab: Attachment C

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Attachment D															
Comparison of Proposed Rate and Bill Increases for Oregon Local Distribution Companies by Class of Service (November 2016 PGA)															
Source: Tab - Input Tariff															
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