ORDER NO. 18 385

ENTERED OCT 15 2018

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 360

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, Purchased Gas Cost Adjustment, Schedule 461 and 462.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Special Public Meeting on October 11, 2018, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Michael Grant
Chief Administrative Law Judge

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. 3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 11, 2018

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **November 1, 2018**

DATE: September 27, 2018

TO: Public Utility Commission

FROM: Brian Fjeldheim BF

JE JC

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: AVISTA UTILITIES: (Docket No. UG 360/Advice No. 18-01-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 dba Avista Utilities' (Avista or Company) Advice No. 18-01-G, which is the Company's 2018 annual Purchase Gas Adjustment (PGA) tariff sheet updates, for service rendered on and after November 1, 2018.

DISCUSSION:

Issue

Whether the Commission should approve Avista's 2018 annual PGA as reflected in its Advice No. 18-01-G.

Applicable Rule or Law

ORS 757.205 requires public utilities to file all rates, rules and charges with the Commission. ORS 757.210 provides that the Commission may approve tariff changes if they are fair, just and reasonable. Filings that make any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the changes.

ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The

Commission may require that amortization of deferred amounts be subject to refund. The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility.

ORS 757.259(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year. ORS 757.259(7) allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the circumstances.

OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

OAR 860-022-0030 requires that tariff filings which result in increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.

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.[1] Order No. 14-238 is the most recent of these orders, which set out the Commission's procedures and requirements concerning the processing of PGA filings.

Analysis

On July 27 and September 9, 2018, Avista submitted Advice 18-01-G, which constitutes its annual PGA filing (Initial 2018 PGA Filing). Avista subsequently filed a supplement to its initial filing (Supplemental 2018 PGA Filing). In aggregate, the filings are commonly referred to as the 2018 PGA filing (2018 PGA Filing). The 2018 PGA Filing is comprised of two parts: a forward-looking part (Projected Purchased Gas Cost for the

[1] 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.

2018-2019 Gas Year) and a backward-looking part (True-Up of the 2017-2018 Gas Year).

The Projected Purchased Gas Cost for the 2018-2019 Gas Year projects the costs of natural gas for the upcoming gas year (i.e., 2018-2019 Gas Year)[2] and results in the new rates set forth in Schedule 461.[3] The True-Up of the 2017-2018 Gas Year trues up the costs of natural gas in the previous gas year (2017-2018 Gas Year) by comparing the amount collected from customers in that year with the actual costs incurred by the Company in the same year.[4] Any over- or under-collection from customers in the 2017-2018 Gas Year, together with any over- or under-collection from previous years,[5] is either 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 2017-2018 Gas Year results in the new rates set forth in Schedule 462.[6]

Projected Purchased Gas Cost for the 2018-2019 Gas Year (Rate Schedule 461)
The Projected Purchased Gas Cost for the 2018-2019 Gas Year comprises two rate components: 1) the commodity component rate and 2) the capacity or demand component rate. The rates for these components are represented in Table 1 in $ per therm.

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[2] The 2018-2019 Gas Year begins on November 1, 2018, and ends on October 31, 2019.
[3] Schedule 461 is titled "Purchased Gas Cost Adjustment Provision - Oregon."
[4] The 2017-2018 Gas Year covers the period beginning on November 1, 2017, and ending on October 31, 2018. 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.
[5] 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.
[6] Schedule 462 is titled "Gas Cost Rate Adjustment - Oregon."

Table 1: Projected Purchased Gas Cost for 2018-2019
(in $/Therm or as noted otherwise)

Item		Current Rate 2017-2018 Gas Year[7]	Proposed Rate 2018-2019 Gas Year	Change
Commodity	(A)	0.20072	0.20323	0.00251
Demand	(B)	0.18539	0.16723	-0.01816
Total Gas Cost	**(C = A+B)**	**0.38611**[8]	**0.37046**[9]	**-0.01565**

The commodity component of the weighted average cost of gas proposed for the 2018-2019 is increasing slightly by $0.00251 per therm. Prices remain generally stable due to continued high natural gas production levels and an abundance of natural gas in storage, as shown above in Table 1. The proposed demand component reflects a decrease of approximately $0.01816 per therm.[10,11] This decrease is largely due to new transportation rates on Williams Northwest Pipeline.[12]

Avista's 2018 PGA Filing meets the PGA Filing Guidelines and the Natural Gas Portfolio Guidelines. Avista has demonstrated its adherence to these Guidelines with regard to natural gas supplies and financial hedges.[13] Staff's conclusions are supported by the Company's comprehensive work papers and by review and discussion as part of the quarterly meetings.

[7] See the Supplemental Twelfth Revision Sheet 461 issued on September 15, 2017, "Rate" section approved by the Public Utility Commission of Oregon in Order No. 17-416 of Docket No. UG 339.
[8] The Company requested an out-of-cycle update to its amortization rate for cost of gas purchased in the 2017 PGA. The Commission approved updated Tariff Sheets in Docket UG 345/Advice No. 17-10-G, Order 18-041.
[9] Supplemental 2018 PGA Filing at Schedule 461.
[10] Demand costs reflect the cost of pipeline transportation to the Company's system, as well as fixed costs associated with natural gas storage.
[11] This rate does not apply to Schedule 440 Interruptible Customers This rate schedule is applicable to commercial and industrial customers who are subject to interruptions in capacity and supply. For interruptible customers, the Company does not secure firm interstate pipeline capacity. As a result, customers served on this rate schedule do not pay transportation or demand charges.
[12] The Williams Northwest Pipeline (WNP) Settlement agreement was approved by the Federal Energy Regulatory Commission (FERC) Settlement Order dated August 18, 2017. The new rates became effective on January 1, 2018, with additional rates to phase in beginning October 1, 2018.
[13] 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 in Docket No. UM 1286.

Staff reviewed Avista's forecasted commodity and demand costs to determine whether Avista complied with the Commission's Natural Gas Portfolio Development Guidelines (Portfolio Guidelines).

Accepted "best practices" for the purchase of natural gas supply by a local distribution company (LDC) is through a portfolio that balances the objectives of reliability, cost, and price volatility using the tools of diversity, flexibility, and balance. The Portfolio Guidelines implement these "best practices" for Oregon local distribution companies (LDCs). The Portfolio Guidelines also require each gas utility to include certain information related to its gas supply portfolio with its annual PGA filing. This information assists the Commission in determining the prudence of the LDC's costs.

Avista's portfolio preparation and planning process meets the standards in Section III of the Portfolio Guidelines related to portfolio planning, as do Avista's physical gas contracts and financial transactions relating to natural gas pricing. Avista has also demonstrated its adherence to the Portfolio Guidelines with regard to natural gas supplies and financial hedges. In addition, Avista has provided all the information called for in Section IV (Information and Workpapers), and Section V (Supporting Data and Analysis) of the Portfolio Guidelines.

True-Up of the 2017-2018 Gas Year (Schedule 462)

Table 2: True-Up of the 2017-2018 Gas Year [14]
(in $/Therm or as noted otherwise)

Item		Current Rate	Proposed Rate	Change
Commodity Amortization	(D)	-0.05278	-0.08021	-0.02743
Demand Amortization	(E)	-0.02580	-0.01383	0.01197
Total Amortization	**(F=D+E)**	**-0. 07858**[15]	**-0.09404**[16]	**-0.01546**

As for the commodity amortization, the new rebate rate of $0.08021 per therm reflects a refund of approximately $6.9 million, which comprises approximately $7.2 million[17] of over-collections in the period from November 2017 to June 2018 and approximately $348,857[18] of under-collections from prior years. The $6.9 million figure is after

[14] Positive numbers represent surcharges; negative numbers or numbers in parentheses represent refunds.
[15] Supplemental Seventh Revision Sheet 462 issued on July 28, 2017, "Rate" section, approved by the Public Utility Commission of Oregon in Order No. 17-416 of Docket No. UG 339.
[16] Supplemental Eighth Revision Sheet 462 attached to Avista's 2018 PGA Filing.
[17] See page 27 of 27 in Avista's workpapers filed with its Supplemental 2018 PGA Filing (i.e., row "61", Column "L".
[18] See page 27 of 27 in Avista's workpapers filed with its Supplemental 2018 PGA Filing (i.e., row "60" Column "L".

accounting for the commodity cost variance sharing between the Company and customers as required by Order No. 08-504 in Docket No. UM 1286.[19] For the reasons mentioned previously in this memo, actual wholesale natural gas prices were lower than the level approved in the Company's 2017 PGA.

As for the Demand Amortization portion, the Company is currently rebating $0.02580 per therm to customers (except Rate Schedule 440).[20] The Company proposes to reduce the amount to be charged to customers to $0.01383 per therm. The new rate reduces the customer rebate by approximately $1.0 million to approximately $1.1 million, which comprises approximately $766,051[21] of an over-collection in the period from November 2017 to June 2018 and an over-collection of $376,408[22] from previous years.

Three Percent Test
Pursuant to ORS 757.259(6), ORS 757.259(7) and OAR 860-027-0300, the annual average rate impact of the amortizations authorized under the statues 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[23] is negative 7.0 percent when compared to the Company's 2017 total gross revenues and falls within the requirements of the statute. The percentage changes in Table 3 below reflect the change in revenues related to the gas commodity portion of the Company's gross revenues for the 2018-19 gas year based on projected customer usage and differs from the three percent calculation.

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[19] For the 2018-2019 Gas Year, the Company elected a 90/10 variance sharing on July 26, 2018.
[20] 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.
[21] See page 27 of 27 in Avista's work papers filed with its Supplemental 2018 PGA Filing (i.e., row "65" Column "L".
[22] See page 27 of 27 in Avista's work papers filed with its Supplemental 2018 PGA Filing (i.e., row "64" Column "L".
[23] Schedule 476, Intervenor Funding, Docket No. UG 363/Advice No. 18-04-G; and Schedule 478 DSM, Docket No. UG 362/Advice No. 18-03-G; and Schedule 475, Decoupling Mechanism, Docket No. UG 361/Advice No. 18-02-G; and Schedule 484, Bank Fee Free Program, Docket No. UG 364/Advice No.18-05-G.

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

Schedule	Description	Total Revenues at Current Rates[24, 25]	Revenue Increase / (Decrease)[26]	Change (%)[27]
410	Residential	59,705,765	-4,952,491	-8.3
420	General	27,419,349	-2,214,601	-8.1
424	Large General	2,118,852	-341,345	-16.1
440	Interruptible	1,314,232	-322,613	-24.6
444	Seasonal	130,784	-20,221	-15.5
456	Int. Transportation	3,149,855	22,479	0.7
Overall		**94,051,113[28]**	**-7,828,792**	**-8.3**

Conclusion

Avista's 2018 PGA Filing reflects a revenue decrease of $2.7 million,[29] or approximately 2.9 percent[30] effective November 1, 2018, 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

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[24] See column "Present Annual Revenue" of page 20 of 27 in Avista's work papers filed with its Supplemental 2018 PGA Filing.
[25] "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).
[26] See column "Total Incremental Change in Revenue" of Attachment A of this public meeting memo.
[27] See column "Total Change – Proposed Annual Change" of page 20 of 27 in Avista's work papers filed with its Supplemental 2018 PGA Filing.
[28] The total of $94,051,113 does not equal the sum of the figures above this number, because it includes revenues of $212,276 from Special Contracts. See page 20 of 27 in Avista's work papers filed with its Supplemental 2018 PGA Filing (i.e., row "Special Contracts" Column "Present Annual Revenue").
[29] $2.7 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.
[30] See page 20 of 27 in Avista's work papers filed with its Supplemental 2018PGA Filing (i.e., row "Total Annual Revenues." Column "PGA Only - Proposed Annual Change."

regulatory filings filed on and after July 27, 2018, results in a revenue decrease of $7.829 million,[31] or negative 8.3 percent,[32] as represented in Table 3 above.[33]

With these changes, effective November 1, 2018, the monthly bill of a residential customer using an average of 47 therms per month will decrease by $4.56, or 8.3 percent, from $54.89 to $50.33.[34]

PROPOSED COMMISSION MOTION:

Approve Avista's Advice No. 18-01-G, which is the Company's 2018 annual Purchase Gas Adjustment (PGA) tariff sheet updates, for service rendered on and after November 1, 2018.

Avista Docket No. UG 360/Advice No. 18-01-G 2018 PGA

[31] See Attachment A of the Company's Supplemental 2018 PGA Filing, row "Total," column "Total Incremental Change in revenue."
[32] See page 20 of 27 in Avista's work papers filed with its Supplemental 2018 PGA Filing (i.e., row "Total Annual Revenues." Column "Proposed Annual Change."
[33] 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.
[34] See Attachment D of this public meeting memo.