ORDER NO. 22-385

ENTERED Oct 20 2022

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1497(12)

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, Application for Reauthorization of Certain Deferred Accounting for the PGA Deferral Mechanism.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on October 18, 2022, 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:

Nolan Moser
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. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 18, 2022

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** **November 1, 2022**

DATE: October 10, 2022

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: AVISTA CORPORATION:
(Docket No. UM 1497(12))
Reauthorization to defer Purchased Gas Cost differences.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Avista Corporation dba Avista Utilities' (Avista, AVA, or Company) application for reauthorization to defer purchased gas cost differences associated with the PGA mechanism for the 12-month period beginning November 1, 2022.

DISCUSSION:

Issue

Whether the Commission should reauthorize Avista to defer, with interest, gas cost differences for later adjustment to the price of gas supplied to customers in accordance with the Purchased Gas Adjustment (PGA) mechanism.

Applicable Law

Due to the fluctuation of the wholesale price of natural gas, Commission Order No. 89-1046 established the PGA mechanism to enable utilities to pass on to customers actual gas costs while minimizing the frequency of rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e). Under the PGA mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer actual purchased gas costs for a 12-month period. The difference between the actual gas costs and the cost charged to customers is amortized and recovered in rates if the utility's earnings are not excessive as defined by OAR 860-022-0070.

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Analysis

Background
The PGA mechanism allows utilities to regularly adjust the price of gas charged to customers to reflect the costs incurred by the utility to purchase and transport the gas. The monthly differences arise because utilities calculate the rates associated with gas costs using forecasted gas prices and therm usage. Avista files an annual request to amortize the accumulated deferral, to be effective November 1.

Order No. 22-285, entered July 28, 2022, reauthorized the deferral of purchased gas cost differences for the 12-month period beginning November 1, 2021.

Description of Expense
Due to natural gas price volatility and to minimize the frequency of rate changes, Commission Order No. 89-1046 established the PGA mechanism to enable utilities to defer the difference between gas costs expected to be collected from customers and gas costs actually collected, as set forth in Schedule No. 461 – Purchased Gas Cost Adjustment Provision – Oregon.

Proposed Accounting
Avista proposes to defer to sub-accounts of FERC Account 191 for subsequent distribution to, or collection from, customers consistent with the dictates of the PGA methodology. The Company will segregate gas cost differences between commodity-related and demand-related differences. The charges incurred for gas costs absent deferred accounting would be recorded using standard accounting procedures, and customers would not incur the benefits or costs associated with changes in the cost of gas.

Estimated Deferrals in Authorization Period
The PGA mechanism enables utilities to pass through rates the actual costs of gas used by customers. However, due to the volatility of natural gas prices, which are dependent

upon market and weather conditions, it is not possible to accurately predict the deferral amount resulting from the difference between gas costs incurred by the Company and gas costs included in customer rates.

Information Related to Future Amortization

- Earnings Review – Prior to amortization, an annual spring earnings review will be conducted pursuant to OAR 860-022-0070.

- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – Due to Avista's previously filed sharing election related to the 2022-2023 PGA year, the Company will defer 90 percent of the difference between actual commodity costs and the commodity costs collected from customers. Avista will absorb the remaining ten percent. The commodity portion of purchased gas cost differences includes purchasing natural gas, the variable cost of transporting the gas from the supply basin to the citygate, the benefits received from storage optimization, off-system sales, and other miscellaneous costs or benefits.

- One hundred percent of the demand portion of the purchased gas cost differences will be deferred. The demand portion includes fixed pipeline costs, capacity releases, and miscellaneous pipeline related refunds or surcharges.

- Rate Spread/Design – Prudently incurred gas cost differences that have been correctly accounted for should be developed into a rate per therm based on estimated usage for the upcoming PGA year.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

- This deferral is subject to the exception at ORS 757.259(7) that 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.

Conclusion

Based upon review of Avista's application, Staff concludes that the proposed reauthorization represents an appropriate use of deferred accounting under ORS 757.259. Additionally, Avista's application for reauthorization of deferred accounting meets the requirements related to the establishment of the PGA mechanism as well as the requirements of ORS 757.259 and OAR 860-027-0300.

Avista has reviewed this memorandum and concurs with its contents.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization to defer purchased gas cost differences associated with the PGA mechanism for accounting purposes for the 12-month period beginning November 1, 2022.

AVA UM 1497 (12) Purchased Gas Deferral