ORDER NO. 24-373

ENTERED Oct 31 2024

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1497(14)

In the Matter of AVISTA CORPORATION dba AVISTA UTILITIES, Request for Reauthorization to Defer Purchased Gas Costs Differences.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Special Public Meeting on October 29, 2024, 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:

Alison Lackey
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. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 29, 2024

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __________ **N/A** __________

DATE: October 9, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Caroline Moore, Scott Gibbens, Anna Kim, and Ted Drennan **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 1497(14))
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, 2024.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request for reauthorization to record and defer costs related to Purchased Gas Cost Differences for the 12-month period beginning November 1, 2024.

Applicable Law

This Application is filed pursuant to ORS 757.259(2)(e), which allows the Commission to authorize the deferral of expenses or revenues of a public utility for later incorporation into rates. 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).

In addition, 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).[1] 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.[2]

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.

Additionally, the Company provides the calendar year regulated utility earnings, for ratemaking purposes, for which the deferral activity and dollar totals took place. On an annual basis, the Company files its Oregon Division Results of Operations report to satisfy the reporting requirements associated with Docket No. UM 903 (associated Order No. 99-272, and Order No. 99-284) as well as the standard Oregon annual reporting requirements.

Reason for Deferral

The Company argues that due to the volatility of the price of natural gas purchased and transported for customer use, the associated costs are difficult to establish with any degree of certainty.

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[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 four different times since they were first acknowledged by the Commission, in Order Nos. 10-197, 11-196, 14-238, and 18-144.

[2] OAR 860-022-0070(1) ("…earnings are excessive only if a gas utility does not share with its customers past revenues related to earnings that exceed an earnings threshold determined by the [C]omission").

This volatility makes the use of deferred accounting extremely important. It is appropriate that the deferral is reauthorized for the Purchased Gas Cost differences for the same reasons that originally established the PGA mechanism. Deferred accounting minimizes both the frequency of rate changes and the fluctuation of rate levels pursuant to subsection (2)(e) of ORS 757.259.

Proposed Accounting
The Company accumulates Purchased Gas Cost differences in two sub-accounts of FERC Account No. 191, namely Account Nos. 191909, Commodity Deferrals and 191910, Demand Deferrals.

Ninety (90) percent of the difference between the forecasted commodity portion and actual costs are recorded in Account No. 191909.

Description of Expense
The commodity portion of Purchased Gas Cost differences includes:

- The actual cost of purchasing natural gas,
- The variable cost of transporting the natural gas from the supply basins to the Citygate,
- The benefits received from storage optimization,
- Off-system sales, and
- Other miscellaneous costs or benefits.

The demand portion of the Purchased Gas Cost differences includes fixed pipeline costs, capacity releases, and miscellaneous pipeline related refunds or surcharges.

The Interest is calculated on the average net balance and included in the deferral accounts.

Estimate of Amounts
As of June 30, 2024, the outstanding balance for the Purchased Gas Cost are as follows:

Account 191909, Commodity Deferrals	$(10,513,347)
Account 191910, Demand Deferrals	$2,004,507
Account 191911, Prior Commodity Amortization	$(1,540,423)
Account 191912, Prior Demand Amortization	$(581,087)
Total	$(10,630,350)

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 – 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.

<u>Conclusion</u>

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.

The Company has reviewed a draft of this memo and voiced no concerns.

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, 2024.

Avista UM 1497(14)