ORDER NO. 99-761

ENTERED DEC 14 1999

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 138
UM 951

In the Matter of the 1999 Gas Cost Tracking and Technical Adjustment Filing of WP Natural Gas (UG 138) and Application for Reauthorization of the PGA Deferred Account (UM 951).	)))))	ORDER

DISPOSITION: FILING APPROVED

On October 18, 1999, the Commission received the annual gas cost tracking and technical adjustment filing of WP Natural Gas (Company) and an application filed pursuant to ORS 757.259, ORS 757.210 and OAR 860-027-0300, requesting reauthorization of deferrals. On November 15, 1999, WP Natural Gas withdrew its October 18 filing and replaced it. The Company requests a waiver of the statutory 30-day notice requirement on revised filings in both dockets.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At a Special Public Meeting on November 30, 1999, the Commission adopted Staff's recommendation to approve the application and the annual filing. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that the 1999 Gas Cost Tracking and Technical Adjustment filing of WP Natural Gas (UG 138) and the Company's application for reauthorization to continue deferring certain revenues and expenses (UM 951) are approved, subject to conditions, if any, stated in Appendix A.

Made, entered, and effective ______________________________ .

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order within 60 days pursuant to ORS 756.561. A party may appeal this order pursuant to ORS 756.580.

ITEM NO.___________

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 30, 1999

REGULAR AGENDA X CONSENT AGENDA_ EFFECTIVE DATE December 1, 1999

DATE: December 30, 1999

TO: Bill Warren through Lee Sparling and Ed Busch

FROM: Ed Krantz

SUBJECT: WP Natural Gas **-** 1999 Gas Cost Tracking and Technical Adjustment Filing (Docket No. **UG 138**, Advice No. 99-10-G Supplemental) and Application for Reauthorization of the PGA Deferred Accounts (Docket No. **UM 951**)

SUMMARY RECOMMENDATION:

I recommend approval of WP Natural Gas' proposed rate increase resulting from changes in purchased gas costs and amortization of certain deferred accounts. This filing increases the company's annual revenues by $4,704,000, or approximately 9.6 percent. The proposed tariff sheets should become effective with service on and after December 1, 1999.

I also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its Purchased Gas Adjustment (PGA) balancing account and to waive the fall earnings test for the years 2000 and 2001.

DISCUSSION:

On October 18, 1999, WP Natural Gas (WPNG) filed applications docketed as UG 138 and UM 951. In Advice No. 99-10-G (UG 138), WPNG proposed a $4.0 million rate increase, effective December 1, 1999. The filing consisted of changes in purchased gas costs, and amortization of deferred revenue and gas cost accounts. In UM 951, WPNG requests reauthorization to continue deferring revenues and gas costs under its PGA mechanism and waiver of its fall earnings test for the years 2000 and 2001.

On November 15, 1999, after discussions with OPUC staff, WPNG withdrew its October 18th filing and replaced it with revised tariffs reflecting several changes from the original filing as well as an update to purchased gas costs. The revised filing proposes to increase rates by $4,703,653. This application included a request to waive the statutory 30-day notice requirement, to allow an effective date of December 1, 1999.

UG 138

In this filing, WPNG proposes to pass on a 9.59 percent rate increase to its Oregon customers. The increase consists of an increase in the base cost of the company's system gas supplies, and a decrease from adjusting the amortization rates for deferred revenue and gas cost accounts. The total change in annual revenues is summarized below and shown in **Attachment A.**

PGA Base Gas Cost Change	$ 5,356,830
Removal of Temporary Credit Increment	694,417
Adding New Temporary Increment	(1,347,594)
TOTAL Proposed Increase	$ 4,703,653

PGA Gas Cost Increase. When grossed-up for revenue sensitive costs, WPNG's proposed annual increase in base gas costs is $5,356,830, consisting of a 5.599 cents per therm increase in commodity cost and a 0.827 cents per therm increase in demand cost, for a total increase to firm sales schedules of 6.426 cents per therm.

This year, under Avista's experimental Natural Gas Benchmark Mechanism (GBM), base gas costs reflect the weighted index plus commodity adder of 5 cents and commodity price stability (Alberta fixed contract). The difference between the base estimate and actual gas costs will be deferred and amortized in next year's PGA. Through this true-up customers will pay gas costs calculated on an actual basis. The GBM also provides Oregon customers with an annual administrative savings credit of $50,200.

Recently, Canadian pipeline expansions have increased the gas deliverability available to markets other than the Northwest. The greater demand from Chicago and the Midwest has put upward price pressure on Alberta gas prices. As a result, Avista's gas supply prices have risen this past year from last year. Avista's gas costs are higher than the other two LDCs because the pipeline demand charges associated with the Medford lateral comprise about 5 cents/therm.

Staff believes the proposed supply costs are reasonable and should be incorporated into rates.

Gas Revenue and Costs Deferred Account Amortization. As shown above and in Attachment A, the net decrease of $653,177 results from changes in the amortization rates for the company's deferred gas cost and DSM-related balancing accounts. All of the deferred amounts subject to amortization, including costs and refunds associated with the company's PGA and open access transition, were previously authorized by the Commission.

Removing the current temporary increment increases rates by $694,417. Over the next 12-month period beginning December 1, 1999, WPNG proposes to amortize a credit balance of $1,347,594. The effect of removing the current temporary increment and adding the new one is a decrease of 0.839 cents per therm to all firm sales schedules. Staff has reviewed the deferred accounts and the weather-adjusted therm sales and verified the accuracy of the changes in amortization rates.

Summary. With these changes, the monthly bill of a typical residential customer using 59 therms per month will increase by $3.30, or approximately 9.6 percent. A summary of the proposed tariff and revenue changes for WPNG's major rate schedules is shown in Attachment A.

Earnings Review and Three Percent Test

As a matter of policy, in past years the Commission has conducted earnings reviews for both prospective purchased gas cost changes and PGA-related deferrals. In 1999, the Commission concluded its PGA investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes. In addition, Section (8) of this rule states: "An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism." In 1999, the Commission allowed WPNG to implement an experimental natural gas benchmark mechanism. The company claims this mechanism will provide customers lower costs over time than the 67/33 sharing mechanism and is therefore requesting waiver of the earnings review for the duration of the experimental period.

ORS 757.259(6) states that the overall annual average rate impact of the amortizations authorized under the statute should not exceed three percent of the utility's gross revenues for the preceding calendar year. WPNG's proposed net credit amortizations are below the 3 percent cap.

UM 951

In this filing, WPNG requests reauthorization of deferrals pursuant to its Purchased Gas Adjustment balancing account (Schedule No. 464). The PGA mechanism allows WPNG to adjust tariffs annually for known and measurable changes in purchased base gas costs and for changes in amortization rates relating to the PGA balancing account and other deferred accounts. The company's application states that continuing the PGA is important because the price of system gas supplies continues to be volatile. Deferring these cost and revenue differences minimizes the frequency and magnitude of rate changes, consistent with ORS 757.259(2)(d). The application is consistent with ORS 757.259 and ORS 757.210 and complies with the requirements of OAR 860-27-300. The reasons cited for reauthorization are still valid. Staff recommends the Commission approve the request for reauthorizing the PGA effective December 1, 1999.

The company also requests a waiver of its fall earnings review beginning in the year 2000 and extending to the year 2001. This time period coincides with the experimental Natural Gas Benchmark Mechanism (GBM) recently approved by the Commission on August 10, 1999, Advice 99-6-G.

Rule OAR 860-022-0070 (8) allows for modification of the earnings review requirement if the Commission authorizes an alternative incentive mechanism relating to variations in gas costs. The GBM is an alternative incentive mechanism. The company claims this mechanism design provides benefits to customers and shifts risk from customers to Avista Energy, a subsidiary of Avista Corporation.

Under the proposed GBM, customers will bear the market risk of short-term gas cost changes. However, the GBM provides several significant benefits that staff believes outweigh the additional risk and provides reduced gas costs for customers. These include: (a) Intra-Month Price Spikes: The natural gas commodity price charged to customers is based on the first-of-the-month index price: (b) Reliability: Avista Energy assumes responsibility to serve customers gas load regardless of significant swings above or below the average monthly load; (c) Credit Risk: Avista Energy assumes the risk of non-payment by wholesale parties related to off-system transactions; and, (d) Administrative and Legal Risks: Avista Energy will negotiate and implement short-term contracts on behalf of WPNG and absorb any administrative and legal risks associated with these contracts.

The company claims the GBM will provide lower gas costs to customers over time than the 80/20 or the 67/33 sharing mechanisms. Customers are guaranteed a natural gas price based on published monthly index prices plus an index adder. Any price variations from this price are absorbed 100 percent by Avista Energy. It is only through their buying power, economies of scale and involvement in a broader geographic market that Avista Energy can guarantee a stable index price to Oregon sales customers.

Staff supports waiving the fall earnings review for the duration of the experimental period; however, we reserve the right to recommend application of the fall earnings review if the mechanism is reauthorized.

STAFF RECOMMENDATION:

I recommend the Commission take the following action with respect to WPNG's 1999 gas tracking filings:

1. Approve the proposed changes in deferred account amortization rates and base gas costs. Approve WPNG's request for waiver of the 30-day notice requirement and authorize the tariff sheets in Advice No. 99-10-G Supplemental to go into effect on December 1, 1999.

2. Reauthorize WPNG's Purchased Gas Cost Adjustment Provision, Schedule No. 464, for one year beginning December 1, 1999.

3. Approve WPNG's request to waive the fall earnings test for the years 2000 and 2001.

Attachment

cc: Bonnie Tatom
Ray Nunez

WP NATURAL GAS
12/1/98 Gas Cost Tracking Filing
Summary

A. Base Gas Cost Change

1. Proposed Commodity Cost Increase $(219,700)
2. Proposed Demand Cost Decrease $(347,033)
3. Total Base Gas Cost Increase
$(566,533)
(includes revenue sensitive costs)
(1.19%)

B. Temporary Increments (gas revenues & costs)

1. Removal of Existing Amortization Rate Credit $ (62,236)
2. Removal of Deferred Rate Reduction Amortization 209,151
3. Addition of New Amortization Rates Surcharge $(363,751)
4. Total decrease due to deferred account amortization $(216,836)

(0.46%)

C. Amortization of Oregon Income Tax Refund $(275,994)

(0.58%)

E. Total Change.
$(1,059,563)

(2.23%)