ORDER NO. 01-166

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 142

In the Matter of the Application of AVISTA UTILITIES for Out-of-Cycle Gas Cost Tracking Increase.	)))	ORDER

DISPOSITION: APPLICATION APPROVED

On December 19, 2000, the Public Utility Commission (Commission) received an application from WP Natural Gas (WPNG or Avista), a division of Avista Utilities, proposing a $22.4 million rate increase, effective January 19, 2001. The filing consisted of changes in purchased gas costs only. On January 11, 2001, Avista withdrew its original PGA and submitted a new filing along with an application to waive statutory notice (LSN) with a proposed effective date of January 24, 2001. The revised filing requested an overall revenue increase of 29.44%, or $18.9 million annually.

Based on a review of the applications and the Commission's records, the Commission finds that the applications satisfy applicable statutes and administrative rules. At its public meeting on January 23, 2001, the Commission adopted Staff's recommendation to approve the applications. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that:

1. The proposed changes in base gas costs, and rate changes, requested in Docket No. UG 142, are approved.

2. Avista's request for waiver of the 30-day notice requirement (LSN) is approved.

3. The associated tariff sheets of Advice No. 00-10-G Supplemental are effective as of January 24, 2001.

Made, entered and effective ________________________________.

________________________	________________________
Ron Eachus	**Roger Hamilton**
Chairman	Commissioner
	________________________
	Joan H. Smith
	Commissioner

A party may request rehearing or reconsideration of this order pursuant to 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 of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 23, 2001

REGULAR AGENDA _X_ CONSENT AGENDA __ EFFECTIVE DATE January 24, 2001

DATE: January 16, 2001

TO: Bill Warren through Lee Sparling and Bonnie Tatom

FROM: Ray Nuñez and Reed Harris

SUBJECT: Avista Utilities - 2001 Out-of-Cycle Gas Cost Tracking Filing (Docket No. UG 142, Advice No. 00-10-G Supplemental)

SUMMARY RECOMMENDATION:

Staff recommends approval of Avista Utilities' proposed rate increase resulting from changes in purchased gas costs. This filing proposes no changes to the amortization of PGA-related deferred accounts. This filing increases the company's annual revenues by $18,890,675, or approximately 29.44 percent. The proposed tariff sheets should become effective with service on and after January 24, 2001. Staff also recommends approval of the company's proposal to change the minimum charge for Rate Schedule 440. Finally, Staff recommends the Commission approve the company's application for less than statutory notice.

DISCUSSION:

On December 19, 2000, WP Natural Gas (WPNG or Avista), a division of Avista Utilities, filed an application docketed as UG 142. In its filing, Avista proposed a $22.4 million rate increase, effective January 19, 2001. The filing consisted of changes in purchased gas costs only. On January 11, 2001, the company withdrew its original PGA and submitted a new filing along with an application to waive statutory notice (LSN) with a proposed effective date of January 24, 2001. The revised filing requests an overall revenue increase of $18.9 million annually, or 29.44%. Since the time of the original filing, Avista discovered a problem with its gas purchasing practices for Oregon customers. Under the company's tariff, Avista is required to utilize "costless collars" or other financial instruments to establish a fixed or maximum price for a portion of customers' gas requirements. The company erroneously thought this requirement was optional, and chose not to execute the appropriate transactions because of the seemingly high forward prices at the time. After reviewing the tariff, the company discovered that this provision is not optional and that it should have executed transactions to fix a price, or price range, for those volumes. As a result of the recent high gas prices, Avista's deferred gas costs would have been lower if the company would have executed the required transactions. After discussions between the company and Staff, we agree that if Avista had executed the appropriate transactions, deferred gas costs would be reduced by approximately $3.5 million. Avista has reduced its actual deferred gas costs by this amount. As a result, the company has reduced the amount of its overall revenue request by approximately $3.5 million. The company has taken steps to ensure that this oversight does not occur in the future.

The revised filing requests no changes to the current amortization of deferred revenue and gas cost accounts. With the proposed gas cost changes, the monthly bill of a typical residential customer using 60 therms per month will increase by $13.41, or approximately 30 percent. The total bill for 60 therms per month including the increase would be about $58.82. A summary of the proposed tariff and revenue changes for Avista's major rate schedules is shown in Attachment A. The bill of a typical residential customer using 125.5 therms in January will increase by $28.04, or approximately 31 percent. The total bill for 125.5 therms per month including the increase would be about $118.62. A summary of the impact of the rate changes on Avista's residential customers on both an annual and January basis is shown on Attachment B, along with the current rates and rate and bill impacts on Cascade and NW Natural customers.

National/Regional/Local Trends

Natural gas prices in the Northwest have increased steadily over the last couple of years, primarily due to the greater demand for natural gas in the Midwest region of the United States—Canadian gas that once served the Northwest fairly inexpensively can now be sent to those markets that are willing and able to pay a higher price. Recently, however, gas prices have had unprecedented market price increases that were not foreseeable. For the period October through December 2000, record high prices have dominated the spot market. As of December 28, 2000, this winter's forward looking average price for AECO, Sumas and the Rockies reached a high of $9.73/DTh. This average price is about three times as high as the $ 3.25/DTh filed in Avista's PGA only three months ago.

At a special public meeting held on August 14, 2000, a panel of Oregon local distribution companies (LDCs), provided the Commission, Staff, media and other interested parties with some of the reasons for the large increases in gas prices that continue to be reflected in Avista's latest PGA filing:

- Increased use of gas-fired electric generating power plants
- Strong demand growth nationally
- Fairly flat production levels combined with a labor shortage
- High oil prices
- Continued concern over availability of gas from storage for this winter
- Increased pipeline use from the Rockies and Canada to the Midwest and South

These dynamic factors continue to influence the current market along with several other developments. During October, November and December of 2000, several other factors influenced spot market prices. First, cooler than normal temperatures brought increases in weather-related demand. Next operational flow orders to limit excessive draws from the Northwest transmission system, including throughput constraints at Kemmerer, pushed spot prices higher. Sumas hit $18/DTh right before the

Thanksgiving holiday while California's energy problems continue to influence western spot prices. Overall, gas markets are exhibiting rapid price run-ups based on interactions of existing market factors including: swift reactions to changing weather forecasts and storage usage estimates, along with market rumors and energy-news driven uncertainty.

Avista's Gas Cost Situation under the Gas Benchmark Mechanism

This is Avista's second PGA filing with the Gas Benchmark Mechanism (GBM). Under the GBM, Avista Utilities delegates daily gas purchasing to an affiliate, Avista Energy. Avista Energy folds the daily gas requirements of Avista Utilities into its much larger natural gas portfolio. Avista Utilities retains title to the gas, manages the affiliate relationship, and performs state regulatory reporting functions.

Prior to implementation of the GBM, gas costs were based on specific contract prices and volumes bought by Avista Utilities for WPNG. Since then, annual gas costs are determined under the GBM. Under the mechanism the commodity cost of gas is calculated as the First-Of-The-Month (FOM) weighted average index (AECO at 50%, Sumas at 25%, Rockies at 25%) plus $.005 a therm. As a result, the annual commodity cost of gas directly reflects general market increases and decreases. The FOM index price under the GBM is designed to provide lower gas costs to customers over time by eliminating the day-to-day price volatility which can occur in the market. Even though some gas must be purchased on a daily basis to meet customer load requirements, all gas supplied during a month is priced at the FOM. During November and December, the difference between the FOM index price and the daily index prices was substantial, as prices escalated on a daily basis throughout those months. Further, deferred gas costs have been offset by $7.7 million in capacity release and off-system sales revenue since the inception of the GBM (September 1999). Over $1.5 million occurred in December 2000 alone, as Avista Energy was able to take advantage of the large price differential between Sumas and the other basins. Not all of these revenues are directly attributable to the GBM, as Avista Utilities would have captured some level of revenue due to capacity release and off-system sales. However, because of Avista Energy's resources and presence in the market, there is no question that customers are receiving a higher level of revenues from these activities than Avista Utilities could produce. In short, prices now are lower than they would have been without the mechanism in place.

Staff's Review of Avista's Gas Costs

Avista, as well as the other two regulated gas utilities, are required to file for rate changes related to purchased gas costs with an effective date of December 1 of each year. The company's tariff allows an out of cycle filing at times other than December 1 if the "Company's annual gas costs change by 10 percent or more." In workpapers submitted to Staff, Avista shows a projected annualized gas cost of $56,435,902, which represents a 48% increase over the current annual cost. The annual cost of gas includes both natural gas commodity and transportation costs. However, this out-of-cycle PGA identifies rising gas commodity costs as the only justification for a rate increase.

Staff reviewed the PGA filing to determine the merit and basis for the proposed gas cost increase. Staff examined GBM input assumptions and GBM monitoring reports. Staff duplicated the gas cost calculations, audited billing records, examined support documents and exhibits, and submitted data requests to Avista Energy and Avista Utilities. Staff also reviewed the statistical performance, or history, of the FOM index.

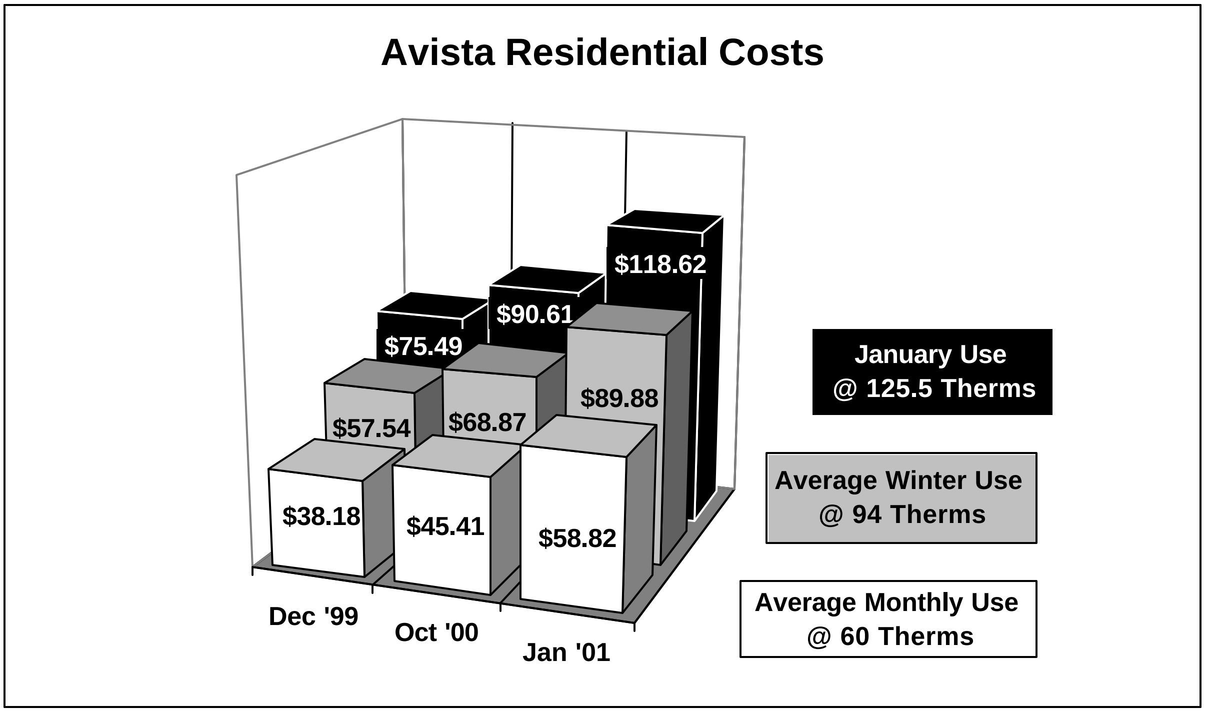
In 1999, Avista's supply portfolio had volumes totaling 83,923,800 therms and a weighted average cost of gas of $0.23000. The weighted average cost of gas, or WACOG, is the annual commodity cost per therm. In this filing, the company forecasted volumes totaling 84,506,910 therms have not changed from the August 2000 PGA filing. However, the major change in this out-of-cycle filing occurs with a new weighted average cost of gas of $0.53126. Even though the number of therms remains constant in this out-of-cycle filing, the WACOG increases by 69%. The annual commodity cost increase is $18,890,675. Following is a table of Avista's Weighted Average Cost of Gas since 1991. These numbers are unadjusted for the effects of inflation:

Year	WACOG
1991	.16839
1992	.16475
1993	.18835
1994	.21857
1995	.17283
1996	.12885
1997	.17921
1998	.17629
1999	.23000
Oct 2000	.31524
Dec 2000	.53126

Based on Staff's review, the proposed WACOG of $.53126 is an accurate reflection of the company's annual commodity cost. This out-of-cycle filing changes the commodity cost of gas only and all other costs of gas remain unchanged. Essentially, this filing holds all other gas costs constant while substituting updated commodity gas costs (WACOG) for the commodity gas costs filed and approved in the August 2000 PGA. Staff has inspected Avista's proposed tariff sheets and verified their accuracy.

Avista's customers will feel the impact of this PGA proposal. Historically, Avista's rates have been lower than the other Oregon natural gas utilities. This proposal would increase Avista's residential rate for 60 therms of usage to $58.82. This compares to $54.55 for NW Natural and $54.50 for Cascade (see Attachment C).

The residential customers' average monthly bill for 60 therms of consumption would increase from $38.19 in January 2000 to $58.82 under the proposed PGA rates.



The big impact will be in winter heating bills. The average residential customer's average winter heating usage of 94 therms will produce a bill of $89.88 under the PGA proposed rates. Average January heating usage of 125.5 therms would increase the bill to $118.62 under the proposed PGA. This equates to an increase of 57% in the average January bill since December 1999.

How does Avista expect to work with its customers in response to the high gas costs?

Avista, along with Cascade and NW Natural, met with the Commissioners in a special public meeting on September 15, 2000. The purpose of the meeting was to discuss with the Commissioners, Staff, CUB, Office of Energy and other interested parties, what each company expects to do to help customers with the expected bill increases—bills that would be even higher under colder than normal weather conditions. Avista also met with Staff and the Office of Energy in late August to discuss its DSM plans for the next year or so. Following are some of the activities Avista has pursued with respect to consumer advocacy:

- The company continues to offer its customers a *Comfort Level Billing Plan* that is designed to average out the monthly payments for gas service of any residential or small commercial customer who has no outstanding balance and who agrees to remain on the plan for twelve months. Avista reports an increase of 121% in participation among Oregon customers in the *Comfort Level Billing* program since October 2000, compared to same period in 1999.

Time Frame	**New Comfort Level Billing Customers Added**	**Annual % Change**
10/1 –12/31/97	199	

10/1 – 12/31/98	287	*44%*
10/1 – 12/31/99	208	*-28%*
10/1 – 12/31/00	460	*121%*

- Avista has been able to help customers by offering time payment agreements (TPA) on arrearages. The company has flexible staffing to assist in the processing of TPAs and in initiating *Comfort Level Billing*. New Time Payment Agreements for Avista's Oregon customers with arrearages have increased 6-1/2% when compared to the same October – December period in 1999.

Time Frame	**New Time Payment Agreements (Arrearage) Negotiated**	**Annual % Change**
10/1 – 12/31/99	5,596	
10/1 – 12/31/00	5,961	6-1/2%

- The company will continue to promote its *Project Share* program, a community program that provides emergency heat assistance for families throughout its territory. Avista’s shareholders, customers and employees help support the fund by donating with their monthly energy bills or through an automatic monthly pledge. Because *Project Share* funding is dispersed by local agencies, the number of assistance applications and amounts dispersed are not available to Avista. Contributions from Avista customers to *Project Share* decreased slightly (by 1%) compared to the same period in 1999. (Direct contribution levels from shareholders and Avista employees are not tracked separately.) It is notable that while customer contributions decreased by 1% between 1999 and 2000, Avista's contribution increased by 60%.
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Contributor	**Time Frame**	**Project Share Contributions**	**Annual % Change**
Customer Contributions	1999	$2,492	
	2000	$2,467	-1%
Company Contributions	1999	$4,000	
	2000	$6,400	60%
Projected	2001	$12,000	88%

- The company changed its collection parameters in July of 2000. These new parameters recognize the higher customer bills and have dramatically reduced the volume of disconnection warning notices sent to residential customers. The number of customers actually disconnected for non-payment has gone down while rates have increased.

			Time Frame	
Service Class	**Rate**	**Collection Action**	**10/1 - 12/31/99**	**10/1 - 12/31/00**
Residential	410	Past Due Notice	5139	3204

		Final Notice	3479	1704
		Disconnected	567	544
Commercial	420	Final Notice	763	545
		Disconnected	64	57
Commercial Sm. Industrial	424	Final Notice	20	15
		Disconnected	0	0

- The company's *CARES* program offers help to customers with special payment arrangements, minor budgeting advice on other bills, weatherization programs, and referrals to other agencies that can help with special problems. In mid-July 2000, Avista had 45 Oregon customers coded as *CARES* customers. Currently 46 Oregon customers are coded as *CARES* customers.

- Avista distributed a bill insert in October bills that had information on payment options and energy efficiency programs. The company continues to work with both its residential and commercial customers to offer demand-side management programs. In addition, the company received regulatory approval to extend its weatherization programs beyond their intended sunset date of December 31, 2000.

- The company will continue its mandated energy audits under its Residential Energy Efficiency Schedule – Oregon (Schedule 486) and Commercial Energy Conservation Services – Oregon (Schedule 487) Program. Energy Audit requests, Energy Audits Performed and the number of actual jobs completed have all increased since October, compared to the same period of previous years. Notably, the actual jobs completed show a steady increase.

Time Frame	**New Energy Audits Requests**	**Annual % Change**	**New Energy Audits Performed**	**Annual % Change**	**Jobs Completed**	**Annual % Change**
10/97 – 12/97	106		149		77	
10-/98 – 12/98	158	*49%*	263	*77%*	82	*6%*
10/99 – 12/99	163	*3%*	188	*-29%*	97	*18%*
10/00 – 12/00	220	*35%*	258	*37%*	123	*27%*

- Finally, the company maintains a website that provides useful information to customers throughout the year. Avista reports that the number of visitors to its website has increased significantly from a year ago. Avista attributes this rise to an overall increase in Internet usage, a redesigned and more user-friendly web page and increased promotion of the website.

Month	**Website Visitors**
October-00	13,650
November-00	9,248

December-00	17,077

Avista has also noted that between December 8, 2000 and January 3, 2001, 509 customers viewed the *"Energy Saving Tips – Fall and Winter Saving Tips"* web page and 597 customers viewed the *"Energy Conservation – 10 Reasons energy costs will increase and 20 ways you can help lower them"* web page.

With this new PGA filing, the company has implemented a comprehensive media and customer information campaign to educate customers. Beginning December 20, 2000, customers received a customer notice and an energy information/conservation fact sheet. For customers that would normally receive their bills during mid-January, Avista provided a special mailing so that all customers would receive a mailed notice of the proposed increase at least one week prior to the proposed effective date of January 24, 2001. In addition, Avista ran a large newspaper ad in all of the major newspapers in its Oregon service area with essentially the same information as contained in the energy information/conservation fact sheet. These ads are scheduled to run about every three days for a 30-day period.

STAFF RECOMMENDATION:

Staff recommends the Commission approve the proposed changes in base gas costs, approve the company's LSN and allow the tariff sheets in Advice No. 00-10-G Supplemental to go into effect on January 24, 2001.