

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903/AR 357

In the Matter of)
)
AVISTA CORPORATION) ORDER
)
2007 Spring Earnings Review.)

DISPOSITION: NO EARNINGS SHARED

On May 1, 2007, Avista Corporation (Avista) filed its 2006 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending December 31, 2006. Avista represented that the report was developed in a manner consistent with Order No. 99-272 and reflects adjustments appropriate to the Stipulated Agreement attached to Order 99-272. Avista further states that it makes no adjustment to normalize for weather per the stipulation approved in Commission Order No. 98-543.

At its July 10, 2007, public meeting, the Commission adopted Staff's recommendation, which is attached as Appendix A and is incorporated by reference. Based on Staff's review of the earnings report and the Commission's records, the Commission finds that the adjusted earnings fall below the earnings threshold established in docket UM 903, resulting in no shared earnings.

ORDER

IT IS ORDERED that Staff's recommendation, as stated in Appendix A, is adopted.

Made, entered and effective JUL 16 2007 .

BY THE COMMISSION:



 Becky L. Beier
BECKY L. BEIER
Commission Secretary

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 in 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(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 10, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: June 25, 2007

TO: Public Utility Commission

FROM: Carla Owings *CO*

THROUGH: *Li* Lee Sparling, *EB* Ed Busch and *JJ* Judy Johnson

SUBJECT: AVISTA CORPORATION: (Docket No. UM 903/AR 357) 2007 Spring Earnings Review.

STAFF RECOMMENDATION:

Staff recommends there be no earnings shared by Avista Corporation due to Avista's earnings through December 31, 2006, falling below the earnings threshold established in UM 903.

DISCUSSION:

Commission Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357) established the role and structure of earnings reviews for Purchased Gas Adjustment (PGA) for Oregon's three regulated natural gas distribution companies: Avista Corporation (Avista or Company), Cascade Natural Gas Corporation and Northwest Natural Gas Corporation. Beginning in 1999, these reviews were originally scheduled to sunset in 2002, but were extended twice, first in Commission Order No. 03-198 (Docket AR 449) and then again in Commission Order No. 07-019 (Docket AR 512) which extended the spring earnings review process through 2009.

The Commission adopted OAR 860-022-0070 along with a list of issues agreed upon by the parties in a Statement of Stipulated Issues. The Commission adopted various resolutions to apply to earnings reviews. These resolutions are summarized below:

- Relationship of Earnings Review to Purchased Gas Adjustment (PGA) Filings: Each spring a general earnings review will be held; a portion of revenues above a specified return on equity (ROE) level would be booked to a deferred account.

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- **Structure of Earnings Reviews:** By May 1 each year, Local Distribution Companies (LDCs) will file results of operations for the 12 months ended the prior December 31. Staff will complete a review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review for each LDC. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission would issue its decision on unresolved issues by August 15. Unless otherwise directed by the Commission, LDCs file annual gas cost tracking filings by August 31 for November 1 rate changes. These rate changes include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.
- **Effective Date of Rate Adjustment:** Amount of revenues to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
- **The ROE Earnings Threshold:** For the spring 2007 review, Avista's earnings threshold was calculated as the sum of 10.25 percent (the ROE authorized for Avista by Commission Order No. 03-570) plus 200 basis points maximum authorized by Commission Order No. 05-1053 and an adjustment for inflation as specified in Order No. 04-203; resulting in a threshold of 12.49 percent.
- **Earnings Sharing:** If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 10 percent of the earnings exceeding the threshold level will be shared with customers.
- **Earnings Adjustments:** Results of operations reports will be adjusted for Type 1 adjustments set forth in Order No. 99-272 with the exception, however, of Avista. Avista made a one-time election not to include a weather normalization adjustment in its spring earnings review filings. On August 2, 2005, Avista filed Schedule 462, Purchased Gas Cost Adjustment Provision - Oregon, in Advice No. 05-02-G which was adopted by the Commission on August 16, 2005. As set forth in the tariff, beginning October 1, 2005, the company will defer 90 percent of the difference between its monthly actual and estimated commodity cost of gas. Since this sharing level is less than the 67/33 percentage sharing prescribed under OAR 860-022-0070(8), the company is subject to a fall earnings review, as well as the mandated spring earnings review. The purpose of the fall earnings review is to determine whether or not Avista should absorb any of its deferrals.

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Avista's Earnings Review:

On May 1, 2007, Avista submitted its 2006 Results of Operations report for the 12 months ended December 31, 2006. The Company states that its report was developed in a manner consistent with Commission Order No. 99-272 and reflects adjustments appropriate to the Stipulated Agreement attached to Order 99-272. The Company further states that it makes no adjustment to normalize for weather per the stipulation approved in Commission Order No. 98-543.

The Company calculates its ROE as 4.75 percent prior to the application of its Type I and Type II adjustments pursuant to Avista's original one-time election not to include a weather normalization adjustment. The Company's ROE calculation falls below the threshold of 12.49 percent authorized by the Commission.

Staff has reviewed the Company's earnings report and concludes that the reported ROE is calculated accurately as represented by Avista. Because Avista's adjusted ROE is below the authorized threshold, there should be no sharing of earnings with customers.

As required by OAR 860-022-0070(6), Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments.

PROPOSED COMMISSION MOTION:

There should be no earnings shared in this filing due to Avista Utilities' 2006 earnings falling below the earnings threshold established in UM 903.

UM 903 Avista spring earnings review 2006