

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: September 19, 2006**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  October 1, 2006

**DATE:** September 12, 2006

**TO:** Public Utility Commission

**FROM:** Carla Owings and Bonnie Tatom

**THROUGH:** Lee Sparling, Ed Busch and Judy Johnson

**SUBJECT:** AVISTA UTILITIES: (Docket No. UG 165(1)/Advice No. 06-05-G) Implements the company's proposed Purchased Gas Adjustment (PGA) Provision tariff, Schedule 461, for the month of October 2006. (Docket No. UM 1215(1)) Requests reauthorization of the PGA deferral mechanism for the month of October 2006.

**STAFF RECOMMENDATION:**

We recommend the Commission allow Avista Utilities' (Avista or company) proposed tariff sheets in Advice No. 06-05-G to become effective with service on and after October 1, 2006. This filing does not change customers' rates.

We also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its tariff Schedule 461, Purchased Gas Cost Adjustment Provision, for the month of October 2006.

**DISCUSSION:**

**UG 165(1)**

On August 31, 2006, Avista filed tariff revisions in Advice No. 06-05-G. The purpose of the filing is four-fold: (1) to implement purchased gas adjustment (PGA) tariff language in its new Schedule 461, (2) to modify the timing of the annual PGA filing, (3) to temporarily revise the PGA mechanism and (4) to indicate the weighted average cost of gas (WACOG) to be used in calculating customers' bills for the month of October 2006.

*New Schedule 461 PGA tariff language.* The company's filing is consistent with recommendations Staff made as a result of several workshops and numerous discussions

with the three local distribution companies (LDCs) over the last twelve months. Staff has been concerned that the LDCs did not consistently define elements of commodity and non-commodity costs, leading to disparities in comparisons between LDCs. Specifically, the tariff revisions mean that all three LDCs will use not only the same words, but, for the most part, the same calculations, to define the various components of their natural gas costs. Although the other two LDCs opted to modify their current PGA tariff schedules, Avista submitted a new Schedule 461 which supercedes all currently-effective PGA tariff schedules.

*Modified timing of the PGA.* Avista's filing permanently changes the date of future PGA filings to no later than August 31, with an effective date of November 1 of each year. This revision was also made at Staff's request to accommodate a longer timeframe to review the ever-increasing complexity of the filings. The currently-effective tariffs and procedures only allowed about four weeks to review all three LDCs' filings, prepare and respond to data requests, and write and present public meeting memos. The LDCs, Northwest Industrial Gas Users (NWIGU) and Citizens' Utility Board (CUB) agreed that more time between the filing and effective dates would be helpful.

*Temporary revision to the PGA mechanism.* Although the three LDCs agreed to permanently revise the effective date of the PGA filings to November 1 of each year, this left the month of October 2006 as a transition month from a PGA year of October through September to the proposed November through October year. After numerous discussions and correspondence with all three LDCs, NWIGU and CUB, Staff agreed that it would be appropriate to allow the LDCs to defer 100 percent of the difference between the average annual embedded commodity costs (unchanged from the previously-approved level) and the actual commodity costs experienced in October 2006, rather than the percentage currently approved in their tariffs. However, Avista filed to continue its current sharing percentage of 90/10. The LDCs also agreed that the commodity and non-commodity cost differences in the deferral accounts would not accrue interest until amortization begins November 1, 2007.

Another key component of this transition is that Staff agreed with the LDCs that the PGA mechanism should compare actual costs of gas for a month to the average annual cost of gas embedded in the rates recovered from customers for that month. Currently, the PGA mechanism compares actual costs of gas for a month to a monthly WACOG calculated for that month. This monthly WACOG differs from the annual WACOG included in the embedded costs recovered from customers, but in the absence of interest accruals and with perfect forecasts, the calculation of gas cost differences would result in the same amount of deferred gas costs for the year. Commission Order No. 89-1046, entered August 4, 1989, is silent on the calculation of gas cost differences that should be deferred for later collection or refund to customers. Staff believes the proposed method is

acceptable at this time. The deferral treatment of the commodity cost differences recommended by Staff is not proposed to be permanent, nor does it imply that Staff would continue to support that treatment in the future.

*October 2006 effective rates.* As indicated above, this filing does not change the rates charged to customers in October 2006. Customers will continue to be billed at the rates approved at the September 22, 2005, public meeting, and in effect since October 1, 2005. However, the temporary revision to the PGA mechanism, discussed above, may result in higher or lower amortizations of gas cost differences beginning November 1, 2007.

### **UM 1215(1)**

Related to its tariff modifications, on August 31, 2006, Avista filed a request with the Commission to approve a one-month reauthorization of its PGA deferral accounts and also for the reduction in margin for interruptible and transportation customers as set forth in the Commission's Order No. 03-570. The information contained in the application is consistent with the requirements of Oregon Revised Statutes (ORS) 757.259, 757.210 and Oregon Administrative Rule (OAR) 860-027-0300. With a move of the proposed effective date for the annual purchased gas adjustment from October 1 to November 1, starting with this year's filing, there is a one-month gap in these deferral reauthorizations for October 2006 only, which this application seeks to cover. A separate application, which will be considered at the PGA public meeting on October 25, 2006, has been filed for deferral reauthorizations for the one-year period beginning November 1, 2006.

The company requests deferral for all of the gas cost differences associated with purchases of gas supplies for system requirements that differ from gas costs embedded in rates, consistent with the procedures outlined in its new Schedule 461.

Adoption of this deferred account is authorized by ORS 757.259(2)(d), as the program's costs are utility "...expenses or revenues, the recovery or refund of which the Commission finds should be deferred in order to minimize the frequency of rate changes... or to match appropriately the cost borne by and benefits received by ratepayers." Avista has met the requirements of OAR 860-027-0300 in its filing.

### **PROPOSED COMMISSION MOTION:**

Avista Utilities' (1) tariff sheets in Advice No. 06-05-G be allowed to go into effect October 1, 2006 and (2) request for reauthorization to use deferred accounting pursuant to its Schedule 461 for the month of October 2006 and for the reduction in margin for interruptible and transportation customers as set forth in Order No. 03-570, be approved.