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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES, A UNIT OF AVISTA CORPORATION, FOR AUTHORITY TO INCREASE ITS RATES FOR NATURAL GAS SERVICE.	)	**CASE NO. AVU-G-03-1**
	)	**COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, John R. Hammond, Deputy Attorney General, and submits the following comments in response to Order No. 29325, the Notice of Application, Notice of Public Workshops, Notice of Modified Procedure, and Notice of Comment Deadlines issued on August 20, 2003.

THE APPLICATION

On August 5, 2003, Avista Utilities, a unit of Avista Corporation (Avista; Company), filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission for authority to place into effect new rate schedules that will result in an overall increase of approximately $1.2 million or 2.4% in revenues. The Company supplies natural gas service to approximately 59,500 customers in northern Idaho. The Company requested an effective date of September 15, 2003 for its proposed rate schedules. The Commission suspended the effective date for 60 days or until it issues an Order approving, rejecting or modifying it, whichever date is earlier. Order No. 29325. The suspension allowed Staff and the customers sufficient time to prepare responses to the Company's Application.

STAFF ANALYSIS

Staff has reviewed the Application, performed an audit of the gas purchases from July 2002 through June 2003, and reviewed additional market information supplied by the Company and third parties. Avista requests recovery of approximately $2.25 million that has accrued through June 2003 in its Idaho deferred accounts. The $2.25 million in deferred costs consists of the following:

Deferred Account Item	Amount Through June 2003
Beginning Deferred Costs Balance	8,682,775
Wholesale Gas Costs Below WACOG	(106,011)
Pipeline Cost Differences	1,242,114
Costs or (Benefits) from Financial Instruments	617,525
Surcharge Collections During the Period	(6,581,032)
Clark Capacity Releases	(15,476)
Cascade Natural Capacity Releases	(178,133)
Benchmark Capacity Releases/Off System Sales	(561,230)
Interest on Deferrals	144,147
Guaranteed Benchmark Payments from Avista Energy	(1,057,000)
Shared Benefits from Avista Energy Capacity Releases	(247,356)
Benchmark Administrative & General Benefit	(35,300)
(Refunds)/Charges to Industrial Customers	395,139
Other	(49,789)
Total Amount Owed by Customers	**$ 2,250,374**

In addition to collecting the $2.25 million listed above, the Company proposes a change in the weighted average cost of gas (WACOG)[1] it collects from customers. These two requests if authorized by the Commission would require changes to the Company's tariff components Schedule 150 and Schedule 155.

[1] The WACOG (Weighted Average Cost of Gas) is the amount included in the tariff to reimburse the Company for the gas purchased. This amount is reviewed and adjusted as necessary during each PGA review.

AVISTA FIRM NATURAL GAS TARIFF COMPONENTS

Avista's firm service rates as described in Schedules 101 – General Service, 111 – Large General Service, and 121 – High Annual Load Factor Large General Service are subject to four adjustments that affect the actual rate customers pay. These four adjustments are described in Schedules 150 – Purchase Gas Cost Adjustment, 155 – Gas Rate Adjustment, 158 – Tax Adjustment, and 191 – Energy Efficiency Rider.

The underlying fixed tariff rate for customers is the rate established in the last rate case, and includes the cost of gas, overhead, operations, transportation, other fixed costs and the allowed rate of return (Case No. WWP-G-88-5, Order No. 22749). Schedule 150 – Purchase Gas Cost Adjustment (also known as Permanent Gas Cost Changes) is a forward-looking cost adjustment that reflects anticipated changes in the variable cost to purchase and transport gas. Schedule 155 – Gas Rate Adjustment (also known as the Temporary Adjustment) is a true up for over- or under-collected gas costs. Schedule 158 – Tax Adjustment is a rate adjustment that adds the local franchise fee taxes to customer rates and is adjusted as the franchise fees are changed. Schedule 191 – Energy Efficiency Rider Adjustment is used to fund authorized Demand Side Management programs. The sum of the tariff rate plus or minus (+/-) the Permanent Gas Cost Changes plus or minus (+/-) the Temporary Adjustment plus (+) the Tax Adjustment and the Energy Efficiency Rider Adjustment comprise the total rate the customers pay per therm each month. Only changes in Schedule 150, and Schedule 155 are being proposed in this filing.

SCHEDULE 150 – PURCHASE GAS COST ADJUSTMENT

The Company's Request

The purchase gas cost adjustment is a forward-looking cost adjustment that reflects anticipated changes in the variable cost to purchase and transport gas. The Company is requesting an increase of $0.09919/therm for a total Schedule 150 rate of $0.27186/therm. This increase is a combination of a $0.10417/therm increase in the projected price for gas and a $0.00498/therm decrease in the pipeline transportation costs. The proposed changes result in a WACOG included in rates of $0.44989/therm, an increase of 30% in average gas costs over last year.

The Natural Gas Market

The requested increase is due to price increases in the Northwest wholesale natural gas market. Natural gas prices have remained well above the current WACOG in Avista's rates of $0.34/therm for the majority of the year and are projected to stay that way. Northwest natural gas prices reached a high in March of over $0.70/therm or double the existing price in rates. Forward winter prices are projected to be near $0.50/therm as of the first week of September. Avista has purchased some gas forwards for this winter to insure that the price paid will not increase further, but these purchases remain near the $0.50/therm price. The Company has also provided Staff with an update of its anticipated WACOG indicating a current WACOG estimate of $0.48 as of September 2, 2003.

The significant increase in natural gas prices is not isolated to Avista's service territory. Staff has observed increasing market price trends since the early spring of 2003. Unseasonably cold weather in late winter for the eastern half of the United States resulted in natural gas storage levels that were well below normal. The low storage levels have caused an increase in natural gas demand during the summer storage-filling season. Demand has also increased due to an increased reliance on natural gas fired electric generation throughout the nation. Staff believes these increases in demand coupled with the more recent increased pressure on fuel switching because of high petroleum prices is keeping upward pressure on natural gas prices.

In addition, the western Canadian and U.S. Rockies natural gas reserves are no longer confined to serve only the Northwest U.S. and Canada. In 2000, the Alliance pipeline opened (See Attachment A). This pipeline allowed the Western Canadian gas-producing fields to serve the larger Midwestern United States natural gas market. In May 2003, a new pipeline began service that doubled the Kern River delivery capability of U.S. Rockies gas into southern California (See Attachment A). Based on these factors Staff believes Idaho customers are now subject to the national gas market that is experiencing significant price increases and market volatility.

Price Stability

There are a number of ways the Company has contributed to greater price stability for customers. The Company has an ongoing, systematic risk management and financial hedging program. Staff has reviewed the risk management committee's minutes and believes the Company is reviewing the appropriate market indicators and properly documenting its decisions.

The program has fixed the price of gas for approximately one-half of the projected natural gas winter needs for the 2003 PGA year. The Company is continuing to monitor the natural gas market and locking additional quantities and prices when it believes market conditions are right. In addition to financial hedges the Company has fixed storage volumes that secure approximately 15% of its winter needs. The fixed storage volumes take advantage of the traditional summer/winter price differential. Even though prices have not declined this summer, the stored volumes still provide some protection from potential winter price spikes.

In addition to Avista's price stability measures, the PGA process has provided an additional measure of price stability. Over the past few years the mechanism has leveled out prices by allowing customers to pay for market price spikes over an extended period of time. This allows the Company to be kept whole and customers are provided some relief from the extremely volatile spot market. This practice has helped Avista's requested increase this year to remain low, 2.4%, when compared to other gas companies that are experiencing double digit increases.

However, a review of the natural gas market over the past few years clearly demonstrates a high degree of volatility. Winter market prices for natural gas have ranged from a high of over $1.00 per therm to prices under $0.20 per therm in the past three years. Even though the Company's WACOG estimate appears to be reasonably calculated, it is still just an estimate. In the interest of customer price stability, Staff believes there is merit in leaving overall rates unchanged in the 2003 PGA filing. If the Commission adopted a lower Schedule 150 rate of $0.25192 (WACOG of $0.42995), and approved the Schedule 155 as requested, this would result in no change in general service customer rates from last year.[2] Furthermore, by setting the WACOG at this level the Commission is not disallowing any possible recovery of gas costs that exceed this level. The PGA mechanism would assure that the Company would have the opportunity to collect all gas costs that it could demonstrate were prudently incurred and refund credits through the deferred expense tariff (Schedule 155).

Staff's proposal would stabilize Company revenues per therm at last year's levels and result in an overall reduction in revenues of $1.5 million from the request based on the Company's projected natural gas purchases. If the Company's estimates as filed are correct,

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[2] Other rates may have minor changes and it would result in an overall decrease of $77,000 in revenues to the Company because of large customer payments.

keeping rates at last year's level will result in a deferral next year of about $1.5 million or approximately two thirds of the deferral built into the 2003 PGA Application and rates would not increase next year either. Therefore, Staff believes that no increase in residential rates is a reasonable alternative proposal for Avista's 2003 PGA.

Regardless of rates approved in this case, should Avista's natural gas costs change considerably in the forthcoming PGA year, the Company has the right to file for another adjustment in rates to reflect a change in market conditions. Indeed, the Company may have the obligation to file for rate adjustments between PGA cycles to avoid significant deferral balances either positive or negative. Staff does not believe that maintaining current overall rates will significantly increases the deferral balances that may be subject to recovery next year.

SCHEDULE 155 – DEFERRED EXPENSES

Avista uses Schedule 155 to pass through any over- or under-collections of accrued gas costs since the last tracker adjustment. Avista proposes a significant decrease in Schedule 155 from $0.11018 to $0.03093 per therm for most customers.[3] This reduced rate is projected to recover the $2.25 million that was owed to the Company as of July 2003 for the deferral period of July 2002 through June 2003. Staff believes it is appropriate for the Company to recover these deferred costs. If the cost of gas was accurately projected by the Company in its original filing, customers will see a decrease of approximately $0.75 million under Staff's proposal when the Schedule 155 charge is reset next fall.

LARGE CUSTOMERS

In addition to Schedule 150 and 155 adjustments for the general body of ratepayers, the Company is working directly with its large gas customers on the proposed deferral collection. Even though many of these customers have switched from tariffed gas commodity service to transportation-only service a few large customers remain on tariffed rates. In the Company's 2001 PGA filing, Avista provided each large customer with an accounting of its portion of the deferral and a lump sum payment or deferral payment plan option. The Company has continued this practice in its 2003 PGA filing. In the past, providing the large customers with an individual payment option has reduced the deferral and avoided a shift of costs to the general body of

[3] The Company proposes to lower the Schedule 155 tariff amount from $.11598 to $.0350 for Schedule 131.

ratepayers. Neither the Company nor Staff is aware of any additional large customers planning to shift to transportation rates but continuing to provide large customers with a clear understanding of their deferral balances allows these customers a better understanding of their obligation. Staff will continue to monitor the Company's treatment of its large customer deferrals.

CONSUMER ISSUES

Avista's Purchased Cost Adjustment (PGA) Application filed on August 5, 2003 contained the customer notice. Staff reviewed the notice and determined it complied with the requirements of IDAPA 31.21.02.102. The notices were mailed with customer bills beginning August 1, 2003 and ending on September 2, 2003. The press release dated August 1, 2003, was also reviewed and determined to be compliant with the IDAPA requirements. Customers have until September 15, 2003 to file comments with the Commission. By September 15, 2003, one Idaho customer had commented on the case and suggested that the increase not be granted.

On September 8, 2003 at 7:00 p.m., Staff presented a workshop in Lewiston to discuss the proposed rate increase. Other than representatives from the IPUC and Avista, there were three individuals in attendance: a customer, a newspaper reporter, and a private energy consultant from Boise.

On September 9, 2003, another workshop was held at 7:00 p.m. in Coeur d'Alene. Attendees included the IPUC Staff, Avista representatives, and one reporter from a local newspaper. No customers attended.

Since Avista's last PGA in November of 2002, five natural gas-related complaints were investigated by Consumer Staff. With only five complaints, no patterns or trends could be identified.

STAFF RECOMMENDATIONS

Given the volatility in the gas market, the possibility of a decrease in the Schedule 155 tariff next year and the relatively small increase proposed by the Company, Staff believes that maintaining current overall rates at this time provides price stability for customers without creating much added risk of a substantial rate increase next year. Therefore, Staff recommends that the Commission approve the Schedule 155 rate as filed and set the Schedule 150 rate at

$0.25192 (WACOG of $0.42995).[4] This will allow customers to experience no change in their current overall rates.

Respectively submitted this 15 day of September 2003.

John R. Hammond
Deputy Attorney General

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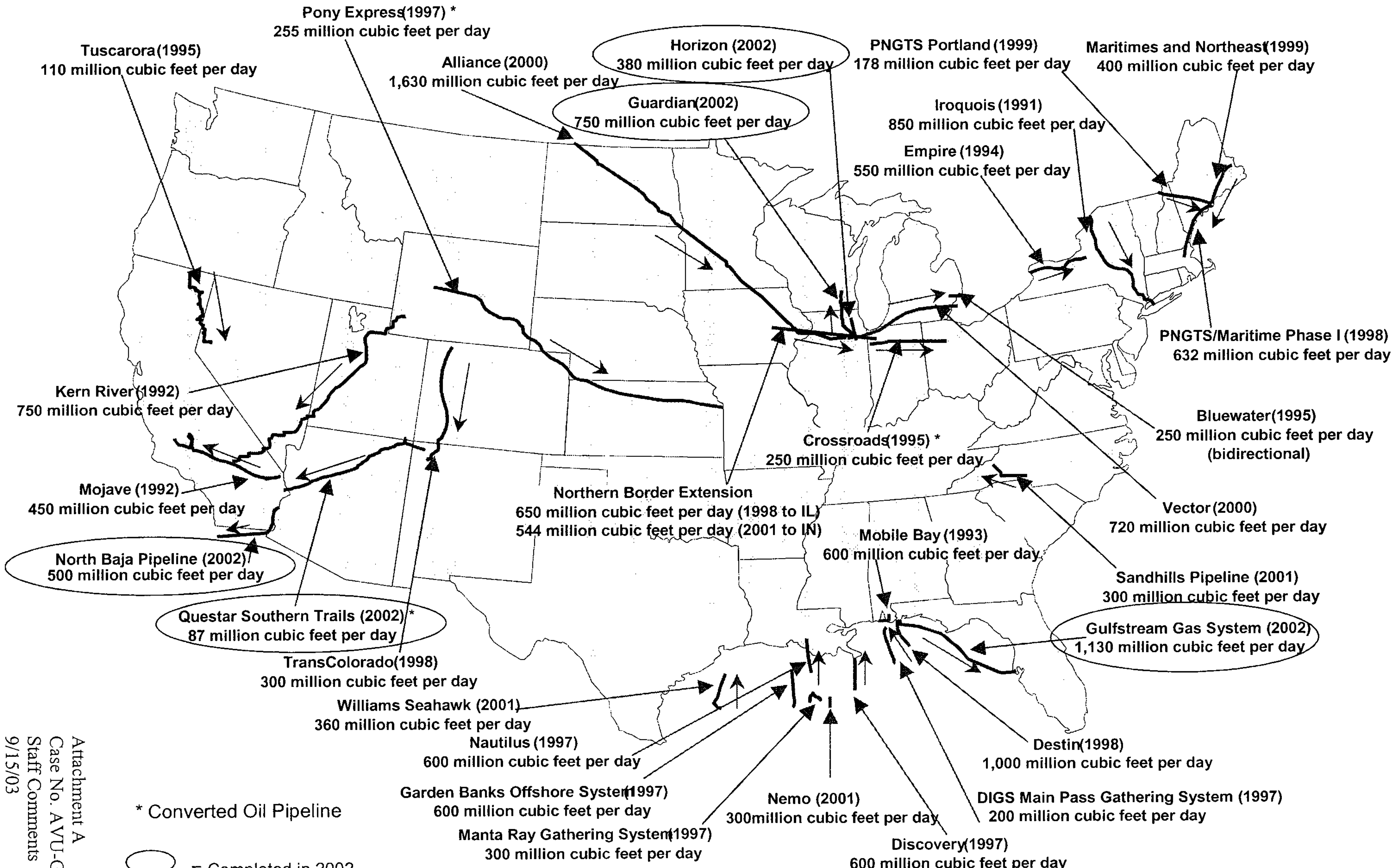
i:umisc/comments/avue03.4jhtc

[4] Other rates may have minor changes and it would result in an overall decrease of $77,000 in revenues to the Company because of large customer payments.

Major New U.S. Natural Gas Pipeline Systems, 1990 - 2002



* Converted Oil Pipeline

= Completed in 2002

= Direction of Flow

Note: Routes are only approximations.
Source: Energy Information Administration, GasTran Gas Transportation Information System, Natural Gas Pipeline Database

Attachment A
Case No. AVU-G-03-1
Staff Comments
9/15/03

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF SEPTEMBER 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-03-1, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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