

and Westcoast Pipeline systems and defers the effect of timing differences due to implementation of rate changes and differences between Avista's actual weighted average cost of gas (WACOG) purchased and the WACOG embedded in rates. Avista also defers the revenue received from Cascade Natural Gas for the release of storage capacity at the Jackson Prairie Storage Facility, various pipeline refunds or charges, and miscellaneous revenue received from gas-related transactions.

YOU ARE FURTHER NOTIFIED that Avista filed proposed tariff sheet 150, which increases the prospective natural gas cost component included in the rates charged to customers by 11.730 cents per therm. This requested rate change consists of an increase of 10.750 cents per therm related to the (variable) commodity cost of purchasing and transporting gas for customer usage and an increase of .980 cents per therm related to fixed pipeline costs.

YOU ARE FURTHER NOTIFIED that the commodity cost increase is based on a proposed increase in the present WACOG included in the Company's gas service schedules. Gas prices have increased markedly since the fall of 2003. The Company's present WACOG included in its gas sales rates is 44.989 cents per therm, which was approved by Commission Order No. 29342. The WACOG proposed in this requested increase is 55.739 cents per therm, reflecting the first-of-the-month (FOM) forward gas prices as of July 13, and hedges executed to date. FOM forward prices, weighted by basin, are multiplied by the monthly projected load requirements, less volumes hedged to date. The Company has executed three hedges to date for the coming winter (November-March) at an average price of 58.4 cents per therm. Additional hedges will be executed prior to this winter, with total hedged volumes representing approximately 50% of the total annual projected load requirements for the July 2004-June 2005 period. Should future FOM or hedged prices substantially change the WACOG requested in this filing, Avista committed to revise this filing or submit an additional PGA filing to reflect those changes.

YOU ARE FURTHER NOTIFIED that in this filing, Avista is not proposing to change the present amortization rate(s) set forth under Schedule 155. This amortization rate is used to refund or surcharge customers the difference between actual gas costs and projected gas costs (from the last PGA filing) over the past year. The Company has a deferred gas cost balance of approximately \$3.3 million, as of June 30, 2004, reflecting higher gas costs than

projected during the past year. However, the present amortization rate is a surcharge of 3.093 cents per therm, which would recover the present deferral balance over an approximate 18-month period. The Company believes this estimated recovery period is reasonable and, given the substantial increase proposed in the WACOG, is not proposing a change to the amortization rate.

YOU ARE FURTHER NOTIFIED that if the Commission approves the proposed increase, firm sales customers on Schedules 101, 111, 112, 121 and 122 will see a rate increase of 11.730 cents per therm. Interruptible sales customers on Schedules 131 and 132 will see a rate increase of 10.750 cents per therm. The Application presumes that upon completion of this PGA tracker case, the Company's tariff Schedule 150 will be changed to appropriately address both base rate and PGA tracker changes.

YOU ARE FURTHER NOTIFIED that Avista proposes that large transportation and interruptible customers be given the option of receiving/paying their portion of the deferred gas costs either through a lump sum credit/charge or through an amortization rate. If these customers choose the lump sum method, Avista proposes to adjust these billings credits/charges by the amount of interest that accumulates from the end of the test period used in this filing to the date of actual settlement. This proposal would clear out the small residual balances related to interest charges that are carried forward between PGA filings for large customers.

YOU ARE FURTHER NOTIFIED that if the Application is approved, Avista states that the Company's estimated annual natural gas revenue will increase by approximately \$7.8 million (14.2%). Avista estimates that the average residential customer using 70 therms per month would see their monthly bill increase by approximately \$8.21 (14.2%). Larger commercial customers would experience an average increase between 15.9% and 17.2%, with the higher increase percentages due to lower base rates. Incorporating its proposed changes to Rate Schedules 150, Avista recommends the following annualized change in PGA rates per customer class:

Customer Class	Schedule	Proposed Average Increase ¢/Therm	Estimated Average Increase % Change	Proposed Average Price ¢/Therm
General	101	11.7¢	14.2%	89.4¢
Large General	111	11.7¢	15.9%	85.4¢
Commercial	121	11.7¢	17.2%	79.8¢
Large General	112	11.7¢	17.5%	78.7¢
Interruptible	131	10.8¢	18.1%	70.3¢
Interruptible	132	10.8¢	19.2%	66.8¢
Transportation	146	none	none	10.6¢

YOU ARE FURTHER NOTIFIED that when combined with the base rate increase requested in pending Case No. AVU-G-04-1, Company revenues could increase by approximately 22%. The 22% combined increase is comprised of a 14.2% PGA revenue increase in this case and the 7.82% base rate increase requested in the Company's rebuttal testimony filed in Case No. AVU-G-04-1.

YOU ARE FURTHER NOTIFIED that the Company requests these rates be approved to become effective September 9, 2004 and that this matter be handled under Modified Procedure pursuant to Rules 201-210 of the Commission's Rules of Procedure.

YOU ARE FURTHER NOTIFIED that the Company's Application to increase its rates is merely a proposal subject to public review and Commission approval.

YOU ARE FURTHER NOTIFIED that the Commission has jurisdiction over this matter and Avista Utilities, a gas utility, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

NOTICE OF MODIFIED PROCEDURE

Avista requests that its Application be processed under **Modified Procedure**, i.e., by written submission rather than by hearing. Commission Rules of Procedure, IDAPA 31.01.01.201-204. The Company has requested an effective date of September 9, 2004.

NOTICE OF APPLICATION
NOTICE OF MODIFIED PROCEDURE
NOTICE OF COMMENT DEADLINE
ORDER NO. 29554

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. AVU-G-04-2. The Commission notes that the annual PGA tracker reflects only those changes in gas costs that are generally recognized as outside the Company's control. The Commission has preliminarily determined that the public interest may not require workshops or hearings to consider the issues presented in this case, and that the issues raised by the Company's filing may be processed under Modified Procedure. IDAPA 31.01.01.125. In so doing, the Commission notes that Modified Procedure and written comment has proven to be an effective means for obtaining public input and participation.

YOU ARE FURTHER NOTIFIED that the Commission will not hold a hearing in this proceeding unless it receives written protests or comments opposing the use of Modified Procedure and stating why Modified Procedure should not be used. Reference IDAPA 31.01.01.203.

YOU ARE FURTHER NOTIFIED that if no protests or comments are received within the deadline, the Commission may consider the matter and enter its Order without a hearing. If protests or comments are filed within the deadline, the Commission will consider them and may set the matter for hearing or may decide the matter and issue its Order on the basis of the written positions before it. Reference IDAPA 31.01.01.204.

NOTICE OF COMMENT DEADLINE

YOU ARE FURTHER NOTIFIED that the **deadline for filing written comments or protests** with respect to the Application and the use of Modified Procedure in Case No. AVU-G-04-2 is **Thursday, August 26, 2004**. IDAPA 31.01.01.202.02. Persons desiring a hearing must specifically request a hearing in their written protests or comments.

YOU ARE FURTHER NOTIFIED that written comments concerning this Application must be mailed to the Idaho Public Utilities Commission and Avista Utilities at the following addresses:

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W Washington Street
Boise, ID 83702-5983

Kelly O. Norwood
Vice President – Rates & Regulation
Avista Utilities
PO Box 3727
Spokane, WA 99220-3727
Email: kelly.norwood@avistacorp.com

David J. Meyer
Senior Vice President
Avista Utilities
PO Box 3727
Spokane, WA 99220-3727
Email: david.meyer@avistacorp.com

These comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.state.id.us. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to the Applicant at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that Avista Utilities shall have until **August 30, 2004 at 10 a.m.** to file a written response to any comments, if it so desires.

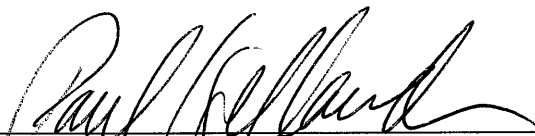
YOU ARE FURTHER NOTIFIED that the Application in Case No. AVU-G-04-2 together with accompanying exhibits and workpapers can be reviewed at the Commission's office and at the principal office of Avista Utilities during regular business hours. Avista Utilities is located at 1411 Mission Avenue in Spokane, Washington (509-495-4817). In addition, the Application and testimonies (excluding exhibits) are available on the Commission's Website at www.puc.state.id.us under the "File Room" icon.

ORDER

IT IS HEREBY ORDERED that the foregoing scheduling be adopted.

NOTICE OF APPLICATION
NOTICE OF MODIFIED PROCEDURE
NOTICE OF COMMENT DEADLINE
ORDER NO. 29554

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th
day of July 2004.



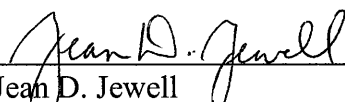
PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER

Out of the Office on this Date
DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:AVUG0402_in

NOTICE OF APPLICATION
NOTICE OF MODIFIED PROCEDURE
NOTICE OF COMMENT DEADLINE
ORDER NO. 29554