

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF AVISTA UTILITIES FOR AN ORDER) **CASE NO. AVU-G-06-03**
APPROVING A CHANGE IN NATURAL GAS)
RATES AND CHARGES (2006 PURCHASED) **NOTICE OF APPLICATION**
GAS COST ADJUSTMENT))
) **NOTICE OF**
) **MODIFIED PROCEDURE**
)
) **ORDER NO. 30141**

On September 14, 2006, Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission requesting authority to place new rate schedules in effect as of November 1, 2006 that will increase its annual natural gas revenues by approximately \$2.7 million (3.2%). The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from wholesale suppliers including transportation, storage, and other related costs of acquiring natural gas. Avista's earnings will not be increased as a result of the proposed changes in prices and revenues.

On September 29, 2006, Avista filed a revised PGA Application and tariff sheets with the Commission to revise the Company's proposed weighted average cost of gas (WACOG) to reflect a further reduction in wholesale natural gas prices. The revised Application proposes to reduce the Company's estimated annual natural gas revenues by approximately \$2.8 million (3.4%).

With this Order the Commission authorizes the use of Modified Procedure to process the Company's Application and establishes a deadline for the filing of written comments and/or protests.

THE REVISED APPLICATION

YOU ARE HEREBY NOTIFIED that according to Avista's Application if the requested price decrease is approved the Company's annual revenue will decrease by approximately \$2.8 million or about 3.4%. The average residential or small commercial customer using 65 therms per month would see an estimated decrease of \$2.70 per month (3.4%).

YOU ARE FURTHER NOTIFIED that Avista states that it purchases natural gas for customer usage and transports this gas over various pipelines for delivery to customers. The Company defers the effect of timing differences due to implementation of rate changes and differences between the Company's actual WACOG purchased and the WACOG embedded in rates. Avista also defers the revenue received from the release of its storage capacity as well as various pipeline refunds or charges and miscellaneous revenue received from gas related transactions.

YOU ARE FURTHER NOTIFIED that Avista's original Application requested an increase in the WACOG from its present 78.600 cents per therm to 84.712 cents per therm. The revised Application requests a decrease in the WACOG from its present 78.600 cents per therm to 76.244 cents per therm. The proposed WACOG is based on a weighting of forward natural gas prices on September 21, 2006, for unhedged volumes, and the Company's hedges executed to date. The Company generally executes hedges to fix the price of gas on approximately 66% of its estimated annual gas sales for the year, and uses a dollar-cost averaging approach for volumes to be hedged, with those volumes divided into 45-day execution windows between February 15 and November 15. The Company states that it has hedged approximately 60% of its estimated annual gas sales for the forthcoming year. It states it will hedge an additional 20% of the estimated sales within days of the revised Application filing, in order to take advantage of the recent sharp drop in forward gas prices.

YOU ARE FURTHER NOTIFIED that this past year the Company has begun incorporating an amount of longer-term hedges into its purchase portfolio to provide an additional degree of rate stability. Approximately 11% of the total purchases for the next year have been hedged at a three-year fixed price. The Company's plan is to keep layering-in three-year fixed price hedges until these hedges represent one-third of the portfolio going forward. This plan has been incorporated into the Company's Risk Management Policy and provided to Commission Staff.

YOU ARE FURTHER NOTIFIED that the Company's proposed rates in this filing also incorporate the proposed rate increases filed by the Company's two main pipeline suppliers, Northwest Pipeline and Gas Transmission Northwest. The proposed pipeline rates, while not yet approved, are set to begin being billed to Avista on January 1, 2007. The Company states that while these pipeline rate increases are substantial, the effect on the Company's proposed rates in

this filing is completely mitigated by an increase in the estimated revenue to be received from pipeline capacity releases.

YOU ARE FURTHER NOTIFIED that the Company is also proposing a change in the present amortization rate, which 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. Avista proposes to decrease the amortization rate from the present surcharge of 5.027 cents per therm to 3.420 cents per therm. The Company states it has an estimated deferred gas cost balance of approximately \$2.8 million as of October 31, 2006, reflecting higher gas costs than projected during the past year. The proposed amortization rate of 3.420 cents per therm is expected to recover this balance over 12 months.

YOU ARE FURTHER NOTIFIED that the Company states that notice of its proposed increase in price has been accomplished by posting a notice at each of the Company's district offices in Idaho, a press release distributed to various informational agencies, and a separate notice to each of its Idaho gas customers included in their billing. Avista attached copies of these notices to its Application.

YOU ARE FURTHER NOTIFIED that the Application, supporting workpapers, testimonies, and exhibits have been filed with the Commission and are available for public inspection during regular business hours at the Commission offices. The Application and testimonies are also available on the Commission's website at www.puc.idaho.gov under the "File Room" icon.

NOTICE OF MODIFIED PROCEDURE

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filing and revised filing of record in Case No. AVU-G-06-03. The Commission has preliminarily determined that the public interest may not require a hearing to consider the issues presented in this case and that issues raised by the Company's filing may be processed under **Modified Procedure**, i.e., by written submission rather than by hearing. IDAPA 31.01.01.201-204. In so doing, the Commission notes that Modified Procedure and written comments have proven to be an effective means for obtaining public input and participation.

YOU ARE FURTHER NOTIFIED that the Commission may 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. IDAPA 31.01.01.203.

YOU ARE FURTHER NOTIFIED that if no protests or written comments are received within the deadline, the Commission will 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, in its discretion, set the matter for hearing or decide the matter and issue its Order on the basis of the written positions before it. IDAPA 31.01.01.204.

NOTICE OF COMMENT/PROTEST DEADLINE

YOU ARE FURTHER NOTIFIED that **the deadline for filing written comments or protests** with respect to the Application and the revised Application as well as the Commission's use of Modified Procedure in Case No. AVU-G-06-03 is **October 24, 2006**. Persons desiring a hearing must specifically request a hearing in their written protests or comments.

YOU ARE FURTHER NOTIFIED that written comments concerning this case should be mailed to the Commission and to the Company at the addresses reflected below.

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
State & Federal Regulation
Avista Utilities
PO Box 3727
Spokane, WA 99220-3727
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Spokane, WA 99220-3727
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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 homepage located at www.puc.idaho.gov. 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 Avista at the e-mail addresses listed above.

FINDINGS/CONCLUSIONS

The Idaho Public Utilities Commission has jurisdiction over Avista Utilities, its Application for an Order approving a change in natural gas rates and charges, and the issues involved in this case by virtue of Title 61, Idaho Code, specifically *Idaho Code* §§ 61-129, 61-117 and 61-307, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

The Commission has preliminarily determined that the public interest may not require a hearing to consider the issues presented in this case, and that issues raised by the Company's filing may be processed under **Modified Procedure**, i.e., by written submission rather than by hearing. IDAPA 31.01.01.201-204. In so doing, the Commission notes that Modified Procedure and written comments have proven to be an effective means for obtaining public input and participation.

ORDER

IT IS HEREBY ORDERED that this case be processed under Modified Procedure. Persons interested in submitting written comments regarding this case or protesting the use of Modified Procedure should do so no later than October 24, 2005.


DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 4th
day of October 2006.



PAUL KJELLANDER, PRESIDENT

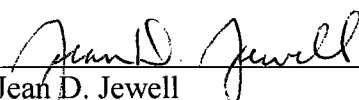


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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