DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DONOVAN E. WALKER

DATE: SEPTEMBER 21, 2007

SUBJECT: AVISTA'S 2007 PURCHASED GAS COST ADJUSTMENT (PGA), CASE NO. AVU-G-07-02

On September 17, 2007, Avista 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, 2007 that would decrease its annual natural gas revenues by approximately $4 million (4.6%). 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. The Company requests that its Application be processed by Modified Procedure.

THE APPLICATION

The Company states that if the proposed changes are approved its annual revenue will decrease by approximately $4 million or 4.6%. The average residential or small commercial customer using 65 therms per month would see an estimated decrease of $3.65 per month (4.6%).

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 Weighted Average Cost of Gas (WACOG) purchased and the WACOG embedded in rates. The Company states that it 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.

Avista requests a decrease in the WACOG from its present $0.76085 cents per therm to $0.75544 cents per therm, a decrease of approximately $0.005 per therm. The Company states that approximately 70% of its estimated annual load requirements for the PGA year will be hedged at a fixed price comprised of: (1) approximately 41% of volumes hedged for a term of one year or less; (2) approximately 18% hedged for a three year term; and (3) 11% of volumes in Jackson Prairie storage. This planned level of hedging is similar to the prior year. During 2006, the Company began incorporating three-year, fixed price hedges into its portfolio to provide additional rate stability. Through the end of August, approximately 2/3 of planned hedge volumes for the PGA year have been executed at a weighted average price of $7.94 per decatherm ($0.794 per therm).

The demand cost included in the Company's Application primarily represents the cost of pipeline transportation to the Company's system. Overall, total demand costs reflected in this PGA filing were essentially flat, as compared to the total costs reflected in the 2006 PGA filing. However, projected firm sales volumes are substantially lower in this filing as compared to the projected volumes in the 2006 filing. Therefore, a similar level of dollars is recovered over a lower level of volumes, thus resulting in a proposed increase per therm. The Company's proposed rates in this filing include a decrease that reflects the settlement of the Northwest Pipeline's (NWP) FERC rate case. However, this decrease is offset by the inclusion of higher rates for Gas Transmission Northwest (GTN), whose FERC rate case is still pending, as well as increases in Canadian pipeline charges. Additionally, during 2007 the Company terminated its agreement related to the Plymouth LNG peaking facility, resulting in a savings of $124,000 per year in fixed demand costs.

The Company is also proposing a change in the present amortization rate that 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 present amortization rate for firm sales customers is approximately a 3.4-cents per therm surcharge. The proposed decrease in the amortization rate results in a refund rate of approximately 2.4-cents per therm to pass back estimated over collected gas costs of approximately $1.7 million as of November 1, 2007.

The Company states that notice of its proposed decrease 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.

STAFF RECOMMENDATION

Given the proposed effective date of November 1, 2007, Staff recommends that this case be processed by Modified Procedure with comments due October 24, 2007.

COMMISSION DECISION

Does the Commission preliminarily find that the public interest may not require a hearing to consider the issues presented, and that this proceeding may be processed under Modified Procedure with comments due by October 24, 2007?

Donovan E. Walker