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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR AUTHORITY TO CHANGE ITS NATURAL GAS RATES AND CHARGES (2007 PURCHASED GAS COST ADJUSTMENT).	**CASE NO. AVU-G-07-2** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donovan E. Walker, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure, issued on September 27, 2007, Order No. 30444, submits the following comments.

BACKGROUND

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 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/therm to $0.75544/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 costs included in the Company's Application primarily represent the costs 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 lower volume levels, 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 table below shows the changes to current rates proposed by the Company:

Customer Class	Schedule	Proposed Decrease $/Therm	Estimated Average Increase/Decrease % Change	Proposed Average Price $/Therm
General	101	-0.05615	-4.63%	1.10560
Large General	111	-0.05615	-5.17%	1.08575*
Large General	112	0.00196	0.19%	1.10966*
Commercial	121	-0.05615	-5.52%	1.07395*
Commercial	122	0.00196	0.20%	1.09786*
Interruptible	131	-0.06352	-6.86%	0.86289
Interruptible	132	-0.00541	-0.61%	0.88680
Transportation	146	0.00000	0.00%	0.10976

* Price per therm for the initial block of usage

STAFF ANALYSIS AND REVIEW

Staff has reviewed the Company's Application and performed an audit to verify that the Company's earnings will not change as a result of the filing. Staff reviewed the Company's hedging and risk management policies, gas purchases, and deferred accounts along with additional information provided by the Company and third parties. In analyzing Avista's proposal, Staff notes a few issues to be discussed further: The Company's hedging policies, WACOG, and transportation rate cases pending before the Federal Energy Regulatory Commission (FERC).

Schedule 150 – Purchased Gas Cost Adjustment

The purchased gas cost adjustment is a forward-looking cost adjustment that reflects the anticipated changes in the variable costs to purchase and transport natural gas for customers. Avista requests a Schedule 150 increase of 0.196 cents per therm for firm sales customers on rate Schedules 101, 111, 112, 121 and 122. Interruptible customers on Schedules 131 and 132 will see a rate decrease of 0.541 cents per therm. These rates are based on the decrease in the overall Weighted Average Cost of Gas (WACOG) proposed by the Company and discussed in further detail later in Staff's comments. However, the decrease in the WACOG is offset by increases in transportation costs, which will also be discussed in further detail.

Scheduled 155 – Deferred Expenses

Avista uses an amortization rate set forth under Schedule 155 to refund or surcharge customers the difference between the actual gas costs and the projected costs allowed in the previous PGA filing. In this Application, the Company is proposing to decrease the present Schedule 155 amortization rate by 5.811 cents per therm from the current surcharge of 3.42 cents per therm. The proposed credit of 2.391 cents per therm will allow the Company to refund to customers the over-recovery of deferred costs of approximately $1.7 million in twelve months. Any over-collection or under-collection will be trued up in next year's PGA filing and either returned to customers via credit or paid to Avista via surcharge depending on the deferral balance at that time. The deferral balance in this case consists of the following:

Deferred Account Item	**Amount Accrued Through October 2007**
Beginning Deferred Costs Balance	2,334,519
Wholesale Gas Costs Below WACOG	(1,880,392)
Fixed Pipeline Charges	(366,950)
Off-System Capacity Release/Sales	87,010
Interest on Deferrals	10,033
Refunds to Industrial Customers/Transfer to Amortization Accounts	1,228,520
Over-Collections from Prior PGA Year	(2,966,307)
Total Deferred Amount Credited to Customers	(1,727,587)

Pipeline Transportation Rate Cases Pending Before FERC

On June 30, 2006, Northwest Pipeline Corporation (NPC) filed a general rate case with the Federal Energy Regulatory Commission (FERC). The FERC suspended the effective date of NPC's proposed rates until January 1, 2007, subject to refund and the outcome of the final FERC Order in the case. The transportation costs approved in last year's PGA filing, Case

No. AVU-G-06-3, were weighted to reflect the increase effective on January 1, 2007. Subsequent to Commission Order No. 30168 establishing rates for Avista, NPC and other interested parties filed a settlement to resolve all outstanding issues in the NPC general rate case, resulting in a rate reduction as compared to NPC's original filing. On March 30, 2007, the FERC issued an Order approving the settlement effective April 1, 2007. In the current filing, Avista proposes to pass the benefits from the NPC transportation rate reduction and refunds back to customers and incorporate the benefits of these lower rates by including the annualized level of transportation costs from Northwest Pipeline Corporation. The benefits received by customers from the settlement are approximately $430,000.

On the same day that Northwest Pipeline Corporation filed its general rate case with the FERC, Gas Transmission Northwest (GTN) also applied for a transportation rate increase. The FERC also suspended the effective date of the GTN increase, subject to refund and the outcome of a hearing. Consistent with its treatment of NPC rates, Avista used a weighting methodology that would reflect the GTN rate increase as being in effect for only nine months of the PGA year. The outcome of the GTN General Rate Case proceeding is still pending before the FERC. Avista is proposing with this Application to incorporate the annualization, or 12-month application, of GTN's filed case, which increases Avista's annual revenue by approximately $140,000. Staff believes the Company's treatment of the pending GTN transportation rate increase is consistent and reasonable given the uncertainty of the timing and amount of increase to be granted by FERC Order. However, in the likely event that the FERC approves an increase less than that proposed by GTN, Staff believes any and all refunds should be credited back to Avista's customers.

TransCanada's British Columbia, also known as Foothills Pipeline System (Foothills) and its Alberta system, also known as Nova Gas Transmission (Nova) both implemented price increases during 2007. The Foothills increase relates to the assignment of its former Alberta Natural Gas assets to its parallel Foothills system while the Nova increase largely relates to the expiration of temporary credits passed back to customers during 2006. The effect of those increases is an additional $416,350 required in revenue to transport gas on those systems.

Weighted Average Cost of Gas

Avista has requested a WACOG of $0.75544/therm for the coming PGA year. This is a decrease of $0.00541/therm or approximately 0.7 percent from the present WACOG, which was approved in Order No. 30168 and became effective November 1, 2006. The table below shows the past and the proposed WACOG along with the resulting effect on residential customers (Schedule 101) and the percentage change in both the WACOG and the Schedule 101 tariff for the most recent five years.

YEAR TARIFF WAS ESTABLISHED	APPROVED WEIGHTED AVG. COST OF GAS, $/THERM	% CHANGE FROM PREVIOUS YEAR	RESULTING TOTAL GENERAL SERVICE SCHEDULE 101 TARIFF, $/THERM	% CHANGE FROM PREVIOUS YEAR
2002	0.34572	Base Year	0.75722	Base Year
2003	0.44989	30.13%	0.77716	2.63%
2004	0.55739	23.89%	0.95315	22.64%
2005	0.76786	37.76%	1.18692	24.53%
2006	0.76085	-0.91%	1.16175	-2.12%
2007 (Proposed)	0.75544	-0.71%	1.10560	-4.83%

Last year's WACOG of $0.76085/therm was based on forward gas prices as of September 21, 2006, and while gas prices varied through the year, the WACOG was fairly reflective of the market rate.

The Company's proposed WACOG of $0.75544/therm was reviewed by Staff against other forecasts, including those published weekly by the U.S. Energy Information Administration. Staff notes that this requested decrease, reflecting the Company's belief that the cost of gas will decrease slightly, is consistent with the forecasted northwest cost of natural gas. The Company's proposed decrease in the WACOG is not as significant as that of Intermountain Gas Company, but Avista is partially constrained by its location. Whereas Intermountain Gas can rely heavily on gas coming out of the Rockies, which is priced artificially low due to transportation constraints, Avista primarily purchases gas out of Canada. The weakening U.S. Dollar and unfavorable exchange rate have caused an upward pressure on Avista's proposed WACOG. However, Avista's hedging practices, discussed below, have removed some of the price volatility and the proposed decrease, coupled with the decrease last year, will amount to meaningful savings to customers.

Hedging Policies

Avista continues to follow its price stabilization practice of systematically fixing portions of gas costs using physical hedges and financial instruments in a purchasing program aimed at achieving a diversified gas supply portfolio. For the forthcoming PGA year, Avista plans to hedge approximately 70 percent of forecasted loads with a combination of fixed price gas purchases/hedges executed throughout the year and scheduled withdrawals from available storage. Additionally, with the recent drop in forward prices, Avista has established price targets to execute hedges for an additional 5% of forecasted load, i.e., if forward prices fall to a certain level, Avista would execute these additional hedges.

The Company continues to follow the revised natural gas procurement program that it implemented approximately two years ago. While the program is fairly structured, it also allows for flexibility based on changing market conditions and continuous review by the Company. Last year, the Company implemented a change to provide additional rate stability for customers whereby 11% of supply is purchased each year at a three-year fixed price. By the end of 2008, the Company will have approximately one-third of its gas supply purchased at staggered three-year fixed prices. Each year thereafter, the Company will purchase an additional 11% to replace the 11% contract(s) that expire. The resulting 33% purchased with three-year fixed price terms will result in more price stability than has been the case in recent years. Commission Staff continues to work with the Company to evaluate the Company's procurement program and to develop other hedging and purchasing practices with the intent of both stabilizing and reducing gas costs.

To quantify the impact of the Company's hedging practices for the previous PGA year, the hedged price was compared to the First of Month (FOM) index price and the difference was multiplied by the hedged volume. For the period from July 1, 2006 through September 30, 2007, the Company hedges were $9.9 million more than the FOM index. Although this measurement indicates that hedge prices were higher than the FOM index, the Company's hedging practices aim to mitigate volatility rather than secure the lowest price possible. While spot prices may occasionally be higher than hedge prices in the short term, Staff believes the benefits of the

Company's procurement policies and hedging practices are price stability designed to protect customers over the long term.

CONSUMER ISSUES

Customer Notice and Press Release

The Customer Notice and Press Release were included in Avista's Application. The Application was received September 17, 2007. The Customer Notice was mailed with cyclical billings beginning September 19, 2007 and ending October 17, 2007. Staff reviewed the Customer Notice and Press Release and determined they were in compliance with the requirements of IDAPA 31.21.02.102.

Customer Comments

Customers were given until October 24, 2007 to file comments. As of October 22, 2007, no comments had been received.

Financial Assistance for Paying Heating Bills

If approved, Avista customers will see an approximate 4.5% decrease in their natural gas rates. Because some customers still struggle to pay their gas bills, Staff would like to remind qualified customers to take advantage of the energy assistance available through the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and non-profit fuel funds such as Project Share. For more information on these programs, customers may call the nearest Community Action Agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Telephone Line.

RECOMMENDATION

After a complete examination of the Company's Application and gas purchases for the year, Staff recommends that the Commission accept the Company's Application and filed tariffs, reducing the Company's Schedule 155 tariff to 2.391 cents per therm, and accepting the Company's proposed WACOG of 75.544 cents per therm, reducing the Company's annual revenue by approximately $4 million. Additionally, Staff recommends that should rates be approved by FERC in the GTN rate case that are lower than those included in this case by Avista, that any and all refunds be credited back to Avista's customers.

Respectfully submitted this 24th day of October 2007.

Donovan E. Walker
Deputy Attorney General

Technical Staff: Donn English
Marilyn Parker

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **24TH** DAY OF OCTOBER 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-07-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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