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AVISTA Corp.

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IDAHO PUBLIC UTILITIES COMMISSION

AVU-G-08-03

August 15, 2008

State of Idaho
Idaho Public Utilities Commission
Statehouse
Boise, Idaho 83720

Attention: Ms. Jean D. Jewell

Advice Number 08-02-G

RE: Tariff IPUC No. 27, Natural Gas Service

The following tariff sheets are enclosed for filing with the Commission:

Eleventh Revision Sheet 150 canceling Tenth Revision Sheet 150
First Revision Sheet 150A canceling Original Sheet 150A and,
Eighth Revision Sheet 155 canceling Seventh Revision Sheet 155

These tariff sheets request an effective date of October 1, 2008 coincident with the proposed effective date of the rates contained in the settlement stipulation filed with the Commission on August 7, 2008 in Case Nos. AVU-E/G-08-01. The proposed tariff sheets result from changes in 1) the projected cost of gas purchased and transported for customer use for the 13-month period October 2008 through October 2009 and 2) the amortization rate pertaining to differences between the actual cost of gas and the amount collected from customers during the past year. Use of this 13-month period will allow the Company to synchronize the November 2009 – October 2010 PGA year for all the jurisdictions it serves.

If these tariff sheets are approved as filed, the Company's estimated annual natural gas revenue will *increase* by approximately $11.6 million or about 14.2%. This increase results primarily from the increase in the weighted average cost of gas (WACOG) over the current effective WACOG, from $0.75544 to $0.90167 per therm. Wholesale prices reached record high levels this past spring, and while wholesale prices have fallen since early July, the average wholesale price of natural gas through July of 2008 has been considerably higher than for the same period last year.

The average residential customer using 65 therms per month will see their monthly bill *increase* by approximately $10.44 or about 13.9%, from $75.14 to $85.58 per month. The requested rate changes will have no effect on the Company's net income.

Also enclosed are an Application and workpapers that provide information supporting this proposed rate change.

If you have any questions regarding this filing, please feel free to call Craig Bertholf at (509) 495-4124 or Brian Hirschkorn at (509) 495-4723.

Sincerely:

Kelly Norwood

Kelly O. Norwood
Vice President
State and Federal Regulation

Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation dba Avista Utilities' filing with Tariff IPUC No. 27 Natural Gas Service by mailing a copy thereof, postage prepaid to the following:

Jean D Jewell, Secretary
Idaho Public Utilities Commission
472 W. Washington Street
Boise, ID 83720-5983

Chad Stokes
Cable Huston Benedict Haagensen &
Lloyd, LLP
1001 SW 5th, Suite 2000
Portland, OR 97204-1136

Paula Pyron
Northwest Industrial Gas Users
4113 Wolfberry Court
Lake Oswego, OR 97035-1827

Curt Hibbard
St. Joseph Regional Medical Center
PO Box 816
Lewiston, ID 83501

Dated at Spokane, Washington this 15th day of August 2008.

Patty Olsness

Patty Olsness
Rates Coordinator

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	AVU-G-08-03
AVISTA UTILITIES FOR AN ORDER APPROVING	)	
A CHANGE IN NATURAL GAS RATES AND CHARGES	)	

Application is hereby made to the Idaho Public Utilities Commission for an Order approving a revised schedule of rates and charges for natural gas service in the state of Idaho. The Applicant requests that the proposed rates included in this Purchased Gas Adjustment (PGA) filing be made effective on October 1, 2008. If approved as filed, the Company's annual revenue will *increase* by approximately $11.6 million or about 14.2%. In support of this Application, Applicant states as follows:

I.

The name of the Applicant is AVISTA UTILITIES, a unit of AVISTA CORPORATION, a Washington corporation, whose principal business office is 1411 East Mission Avenue, Spokane, Washington, and is qualified to do business in the state of Idaho. Applicant maintains district offices in Moscow, Lewiston, Coeur d'Alene, and Kellogg, Idaho. Communications in reference to this Application should be addressed to:

Kelly O. Norwood
Vice President – State & Federal Regulation
Avista Utilities
P.O. Box 3727
Spokane, WA 99220-3727

II.

Attorney for the Applicant and his address is as follows:

David J. Meyer
Vice President and Chief Counsel for Regulatory &
Governmental Affairs
Avista Utilities
P.O. Box 3727
Spokane, WA 99220-3727

III.

The Applicant is a public utility engaged in the distribution of natural gas in certain portions of Eastern and Central Washington, Northern Idaho and Southwestern and Northeastern Oregon, and further engaged in the generation, transmission, and distribution of electricity in Eastern Washington and Northern Idaho.

IV.

Eleventh Revision Sheet 150, which Applicant requests the Commission approve, is filed herewith as Exhibit "A". Also included in Exhibit "A" is a copy of Eleventh Revision Tariff Sheet 150 with the changes underlined and a copy of Tenth Revision Tariff Sheet 150 with the proposed changes shown by lining over the current language or amounts.

Additionally, First Revision Sheet 150A, which Applicant requests the Commission approve, is also filed herewith as Exhibit "A". Also included in Exhibit "A" is a copy of Original Sheet 150A with the proposed changes shown by lining over the current language or amounts.

Additionally, Eighth Revision Sheet 155, which Applicant requests the Commission approve, is also filed herewith as Exhibit "A". Also included in Exhibit "A" is a copy of Eighth Revision Tariff Sheet 155 with the changes underlined and a copy of Seventh Revision Tariff Sheet 155 with the proposed changes shown by lining over the current language or amounts.

V.

The existing rates and charges for natural gas service on file with the Commission and designated as Applicant's Tariff IPUC No. 27, which will be superseded by the rates and charges filed herewith, are incorporated herein as though fully attached hereto.

VI.

Notice to the Public of Applicant's proposed tariffs is to be given simultaneously with the filing of this Application by posting, at each of the Company's district offices in Idaho, a Notice in the form attached hereto as Exhibit "B" and by means of a press release distributed to various informational agencies, a copy attached hereto as Exhibit "E". In addition, a separate notice to each Idaho gas customer will be included in their current billing, a copy of which is attached hereto as Exhibit "B - 1". The customer notice will begin being mailed to customers on August 19th, with the final mailing date of the notice on September 17th.

VII.

The proposed effective date of October 1st for the PGA rates is simultaneous with the proposed effective date of the rates contained in the settlement stipulation filed with the Commission on August 7, 2008 in Case No. AVU-E/G-08-01. The proposed PGA rates reflect a thirteen-month gas cost and amortization period October 2008 – October 2009. As compared to the normal twelve-month PGA period, use of a thirteen-month period does not materially change the proposed rates and will allow the Company to synchronize the PGA year (November-October) for all the jurisdictions it serves in 2009.

VIII.

The circumstances and conditions relied on for approval of Applicant's revised rates are as follows: Applicant purchases natural gas for customer usage and transports it over Williams Pipeline West (d.b.a. Northwest Pipeline Corporation), Gas Transmission Northwest (GTN), TransCanada (Alberta), TransCanada (BC) and Westcoast Pipeline systems and defers the effect of timing differences due to implementation of rate changes and differences between Applicant's actual weighted average cost of gas (WACOG) purchased and the WACOG embedded in rates. Applicant also defers various pipeline refunds or charges and miscellaneous revenue received from gas related transactions including pipeline capacity releases.

IX.

This filing reflects the Company's proposed annual Purchased Gas Cost Adjustment (PGA) to: 1) pass through changes in the estimated cost of natural gas for the forthcoming year (Schedule 150), and 2) revise the amortization rate(s) to refund or collect the balance of deferred gas costs (Schedule 155). Below is a table summarizing the proposed changes reflected in this filing.

Service	Sch. No.	Commodity Change per therm	Demand Change per therm	Total Sch. 150 Change	Sch. 155 Amort. per therm	Total Rate Change per therm	Percent Change
General	101	$0.14623	$0.00777	$0.15400	$0.00664	$0.16064	13.9%
Lg. General	111	$0.14623	$0.00777	$0.15400	$0.00664	$0.16064	15.7%
Interruptible	131	$0.14623	-	$0.14623	$0.00664	$0.15287	16.5%
Transport	146	-	-	-	-	$0.00000	0.0%

X.

Commodity Costs

As shown in the table above, the estimated commodity cost (WACOG) change is an increase of $0.14623 per therm. The proposed WACOG is $0.90167 compared to the present WACOG of $0.75544 included in rates. This past spring, wholesale natural gas prices were at record levels (for that time of the year). While wholesale prices have fallen considerably since early July, the average wholesale price of natural gas through July of 2008 has been considerably higher than for the same period of 2007.

Approximately 67% of estimated annual load requirements for the PGA year (Nov '08-Oct '09) will be hedged at a fixed price, comprised of: 1) volumes hedged for a term of one year or less, 2) longer term (three-year) hedges executed in prior years, and 3) volumes in Jackson Prairie storage. This planned level of hedging is slightly less than the prior year (70%). The remaining 33% of estimated load requirements will be met with first-of -the-month or daily (spot) purchases. The table below shows the composition of the company's gas procurement portfolio to meet estimated load requirements for the Nov. '08 – Oct. '09 PGA year:

Short-term hedges (one year or less)	26%
Long-term hedges from prior years	20%
Jackson Prairie Storage	21%
Spot Purchases	33%
Total	100%

XI.

In May 2008, the Company's Jackson Prairie (JP) storage capacity (working gas) increased by 23 million therms resulting from a recalled storage release to Terasen. This recalled release increased storage capacity from approximately 30 million to 53 million therms for its Washington/Idaho customers, an increase from 12% to 21% of annual load requirements. As of the end of July, the Company's JP storage capacity was 64% full at an average cost of $8.81 per dekatherm ($0.881 per therm). As a result of the high gas prices this spring, the company reduced its normal level of storage injections – during August; the company has increased the level of injections which should reduce this average cost of gas in storage going into the winter. The company is aggressively optimizing storage to provide additional benefits to customers beyond the winter/summer price differential and supply reliability.

XII.

Through mid-August, approximately 82% of planned short-term hedge volumes (excluding storage) for the PGA year have been executed. The weighted average price of the short-term and longer term (3-year) hedges executed in prior years is $9.08 per dekatherm ($0.908 per therm).

The Company used a 30-day historical average of forward prices (July 7- August 5) by supply basin to develop an estimated cost associated with unhedged volumes (spot purchases). The monthly prices by basin were weighted 50% AECO, 25% Sumas and 25% Rockies to approximate the Company's pipeline transportation available by supply basin. The weighted (30-day) average forward price was then applied to the unhedged/spot purchase volumes by month to estimate the monthly gas cost for these volumes. The result is a weighted average price for unhedged volumes of $9.15 per decatherm ($0.915 per therm).

XIII.

The Company continuously reviews its procurement strategy and makes changes that it believes are appropriate. The company meets with the Commission Staff several times throughout the year to discuss the state of the wholesale market and the status of the company's procurement plan. In addition, the company communicates with the Staff when it believes it makes sense to deviate from its procurement plan or opportunities arise in the market. The Company modified its procurement plan for the Nov '07-Oct '08 PGA year to: 1) reduce the percentage of the short-term hedges (one year or less) relative to the increase in underground storage capacity, and 2) change the methodology used to execute long-term hedges. Long-term hedges are more discretionary than in the past, utilizing several price targets established early in the year. The hedge volumes associated with these targets increase as the price decreases. While the Company's procurement plan generally uses a diversified approach to procure gas for the coming year, the Company has and will continue to exercise discretion and flexibility based on changes in the wholesale market.

XIV.

Demand Costs

The Demand Cost shown in the table primarily represents the cost of pipeline transportation to the Company's system. As shown in the table above, there is an increase of approximately eight-tenths of a cent per therm in the demand cost included in rates. There were numerous items affecting the total demand cost/rate, some of which increased the cost and some reduced the cost. A notable item that increased the cost is a new contract with Northwest Pipeline for a relatively small amount of incremental firm transportation capacity that will fulfill a need set forth in the company's Integrated Resource Plan. The cost associated with this capacity should be more than offset by a reduction in other gas costs to customers. Another item that resulted in an increase in projected demand costs is a lower Canadian exchange rate caused by the lower (relative) value of U.S. currency.

XV.

Schedule 155 / Amortization Rate Change

As shown in the table above, the proposed amortization rate reflects an increase of seven-tenths of a cent per therm. The proposed amortization rate is a refund rate of 1.727 cents per therm compared to the present refund rate of 2.391 cents per therm. The proposed rate reflects an estimated (refund) balance of $1.3 million at the end of September '08 to be credited to customers over the Oct. '08 – Oct. '09 period. Approximately $1.1 million of the balance is related to an over-collection of pipeline demand costs during the past year resulting from higher than projected customer gas usage (colder than normal weather) and a jurisdictional reallocation of Canadian pipeline costs (cost reduction for Idaho). Total commodity costs over the year were relatively close to the cost (WACOG) reflected in rates.

XVI.

The average residential or small commercial customer using 65 therms per month will see an estimated increase of $10.44 per month, or approximately 13.9%. The present bill for 65 therms is $75.14 while the proposed bill is $85.58. The average percentage changes for the various Schedules are shown on Exhibit "C", page 2.

XVII.

Exhibit "C" attached hereto contains support for the rates proposed by Applicant contained in Exhibit "A".

XVIII.

Applicant is requesting that Applicant's rates be approved to become effective on October 1, 2008. Applicant requests that, if appropriate, the Commission adopt the procedures prescribed by Rule 201-210, Modified Procedure. Applicant stands ready for immediate consideration on its Application.

XVIV.

WHEREFORE, Applicant requests the Commission issue its Order finding Applicant's proposed rate to be just, reasonable, and nondiscriminatory and to become effective for all natural gas service on and after October 1, 2008.

Dated at Spokane, Washington, this 15th day of August 2008.

AVISTA UTILITIES

BY

Kelly Norwood

Kelly O. Norwood
Vice President, State and Federal Regulation

STATE OF WASHINGTON)
) ss.
County of Spokane)

Elizabeth M. Andrews, being first duly sworn, on oath deposes and says: that she is the Manager of Revenue Requirement of Avista Utilities; that she has read the above and foregoing Application, knows the contents thereof, and believes the same to be true.

Elizabeth M. Andrews

Elizabeth M. Andrews
Manager, Revenue Requirement

SUBSCRIBED and sworn to before me this 15th day of August 2008.

Patty Olsness

Notary Public in and for the
State of Washington, residing in
Spokane.

PATTY OLSNESS
COMMISSION EXPIRES
NOTARY
PUBLIC
FEB. 22, 2010
STATE OF WASHINGTON