SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
BAR NO. 1895

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

RECEIVED
2008 SEP 23 PM 1:47
IDAHO PUBLIC
UTILITIES COMMISSION

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 (2008 PURCHASED GAS COST ADJUSTMENT)	)	**CASE NO. AVU-G-08-3**
	)	**COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on August 28, 2008 in Case No. AVE-G-08-3, submits the following comments.

BACKGROUND

On August 18, 2008, Avista Corporation dba Avista Utilities (Avista; Company) filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission requesting authority to place new rate schedules in effect as of October 1, 2008 that would increase its annual natural gas revenues by approximately $11.6 million or about 14.2%. On September 15, 2008 Avista filed a revised Application reducing the original request from an $11.6 million increase to a $3.3 million increase, or roughly 4.0%. Avista states that the only change in the revised filing is a reduction to the proposed Weighted Average Cost of Gas (WACOG) to reflect the current decrease in wholesale natural gas prices. All other components of the original filing remain unchanged. The PGA mechanism is used to adjust rates 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.

Avista states that if the proposed changes in its revised PGA Application are approved its annual revenue will increase by approximately $3.3 million or about 4.0%. The average residential or small commercial customer using 65 therms per month will see an estimated increase of $2.96, or approximately 3.9%. The present bill for 65 therms is $75.14, while the proposed bill is $78.10, down from $85.58 in the original filing. The actual increase will vary based on customer usage. The proposed effective date of October 1, 2008 for the PGA rates is simultaneous with the proposed effective date of the rates contained in the Stipulation and Proposed Settlement filed with the Commission on August 8, 2008 in Avista Case Nos. AVU-E/G-08-01.

Evaluations of the documentation, circumstances and conditions have been completed for the review of the Company's proposed revision in rates. Avista purchases natural gas for customer usage and transports it over Williams Pipeline West (dba Northwest Pipeline Corporation), Gas Transmission Northwest (GTN), TransCanada (Alberta), TransCanada (BC), and West Coast Pipeline Systems and defers the effective timing differences due to implementation of rate changes and differences between Avista's actual weighted average cost of gas (WACOG) purchased and WACOG embedded in rates. Avista also defers various pipeline refunds or charges and miscellaneous revenue received from gas-related transactions including pipeline capacity releases.

As reflected in attachments to the Company's filing, many factors have contributed to the volatility of natural gas prices, making this an especially challenging year for Avista as it purchases the commodity to serve its customers during the 2008-2009 heating season. The 2008 spring and summer natural gas prices, it states, soared to levels not seen since Hurricanes Rita and Katrina. Although natural gas prices decreased about 30% in August, prices remain above levels of a year ago.

The Company's Director of Natural Gas Supply, Kevin Christie, notes that an unusually long, cold spring depleted storage reserves across the country, that natural gas imports from Canada to the United States are declining, and that international demand has lured liquefied natural gas (LNG) away from the U.S., putting pressure on natural gas prices. Higher crude oil prices, he states, have also put upward pressure on natural gas prices. Pricing for both of those energy commodities, he states, tends to be correlated.

Avista follows a structured natural gas purchasing plan that allows for flexibility based on market prices and conditions. Currently, about 67% of estimated customer demand for the upcoming year is either pre-purchased or placed in storage. This year Avista has increased its underground Jackson Prairie storage capacity from 11% to 21% of expected annual demand requirements. Storage is a valuable asset that allows the Company to purchase lower cost gas during the spring and summer months and store it for use during the heating season when wholesale gas prices are typically highest. However, prices for natural gas during this year's spring and summer time period were higher than in prior years.

The Company in its revised PGA filing proposes 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 the revised filing:

Service	Schedule 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	$0.03102	$0.00777	$0.03879	$0.00664	$0.04543	3.9%
Lg. General	111	$0.03102	$0.00777	$0.03879	$0.00664	$0.04543	4.4%
Interruptible	131	$0.03102	--	$0.03102	$0.00664	$0.03766	3.5%
Transport	146	--	--	--	--	$0.00000	0.0%

STAFF ANALYSIS

Staff has reviewed the Company's original and revised Applications 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, all of which are discussed in greater detail below.

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 originally proposed a Schedule 150 increase of 15.4 cents per therm for firm sales customers on rate Schedules 101, 111 and 112. Interruptible customers on Schedules 131 and 132 would have seen a Schedule 150 increase of 14.623 cents per therm. These rates were based on an increase in the overall Weighted Average Cost of Gas (WACOG) as calculated by the Company on August 5, 2008. The original proposal for Schedule 150 by the Company made up approximately 96% of the requested overall increase of $11.6 million.

The Company's revised filing reduces the proposed Schedule 150 increase by 11.321 cents per therm for an increase of 3.879 cents per therm for customers on Schedules 101, 111 and 112. The proposed increase for interruptible customers on Schedules 131 and 132 is now 3.102 cents per therm. These revised rates are based on updating the proposed WACOG calculation using current prices on September 12, 2008. The revised Schedule 150 increase provides the Company with an additional $2.8 million in annual revenue for upcoming purchased gas costs, which is approximately 86% of the overall requested annual increase of $3.3 million.

Weighted Average Cost of Gas (WACOG)

Avista originally requested a WACOG of $0.90167/therm for the coming PGA year. This WACOG was calculated in early August based on the amount of gas the Company had already hedged, current storage levels, and an estimate of spot prices as additional gas is delivered throughout the year. Recent sharp declines in the wholesale cost of natural gas have allowed Avista to purchase additional gas for the coming year and complete its storage injections at a more favorable rate than original anticipated. The revised WACOG of $0.78646/therm will lessen the increase in customer rates and is comparable to the $0.75544 WACOG currently included in rates which became effective November 1, 2007. The table below shows the past and 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 since 2002.

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	0.75544	-0.71%	1.10560	-4.83%
2008 (Proposed)	0.78646	4.11%	1.15103	4.11%

Last year's WACOG of $0.75544/therm was based on storage volumes, hedged volumes and forward gas prices as of late September 2007, and while gas prices varied significantly throughout the year, the WACOG was fairly reflective of the wholesale rates paid for natural gas by the Company.

The Company's revised WACOG of $0.78646/therm was reviewed by Staff against other forecasts, including NYMEX futures and those published weekly by the U.S. Energy Information Administration. Staff notes that the requested increase, reflecting the Company's belief that the cost of gas will be more expensive this winter, is consistent with the forecasted northwest cost of gas and the beliefs of other natural gas utilities serving the northwestern United States. The Company's proposed WACOG is slightly higher than the $0.78484/therm proposed by Intermountain Gas Company in Case No. INT-G-08-03. Historically, Avista has always had a higher WACOG than Intermountain Gas Company. Whereas Intermountain Gas can rely heavily on natural gas coming out of the Rockies, where prices have been artificially low due to transportation constraints, Avista relies primarily on gas coming out of Canada. The weakening U.S. Dollar and an unfavorable exchange rate continue to cause upward pressure on Avista's cost of gas. However, Avista's hedging policies, discussed below, have removed much of the price volatility and have helped keep customer rates relatively stable over the past three years.

Schedule 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 gas costs allowed in the previous PGA filing. In this Application, the Company is proposing to increase the present Schedule 155 amortization rate by 0.664 cents per therm from the current customer credit of 2.391 cents per therm. The proposed credit of 1.727 cents per therm will allow the Company to refund to customers the over-recovery of deferred costs of approximately 1.3 million in the coming PGA year. 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 table below lists the components that make up the deferral balance in this case:

Deferred Account Item	Amount Accrued Through September 2008
Beginning Deferred Cost Balance	($1,727,597)
Wholesale Gas Costs Below WACOG	(280,750)
Fixed Pipeline Charges	(994,576)
Recalled Storage Release	274,282
Interest on Deferrals	(141,282)
Refunds to Industrial Customers/Transfer to Amortization Accounts	2,869
Refunds from GTN Pipeline	(240,733)
Under-Collections from Prior PGA Year	1,779,063
Total Deferred Amount Credited to Customers	($1,328,725)

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 portfolio. For the forthcoming PGA year, Avista will 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. At the time of the original filing, Avista had executed only 82% of its planned short-term hedge volumes for the upcoming PGA year. The recent decline in natural gas prices has allowed Avista to complete the remaining hedges at favorable prices and contributed to the decreased WACOG.

The Company's revised natural gas procurement program was established approximately three years ago, and as illustrated on the table in the previous section, has accomplished its goal of providing rate stability for customers while procuring gas at low cost. While the program is fairly structured and mechanical, it also allows for flexibility based on changing market conditions and continuous review by the Company. Hedge windows are created for gas purchases where a price ceiling and floor are established at 10% above and below the current price. If the price of gas hits the price ceiling, the hedge is automatically executed. If the price of gas falls below the established floor, a new "hard" floor is established at 5% below the original floor. If the price of gas hits either the "hard" floor or the original floor, the hedge will then be executed. This practice is a dollar-cost-averaging result which protects Avista and its customers from sudden spikes in the cost of natural gas while capturing the benefit of lower prices when market prices decline.

The Company also established another rate mitigating component of its hedging practices whereby 11% of supply is purchased each year at a three-year fixed price. At any given time, the Company will have approximately one-third of its gas supply purchased at staggered three-year fixed prices. As the first three-year contract expires, the Company will purchase an additional 11% to replace the 11% contracts that are expiring. The resulting 33% purchased with staggered three-year fixed price terms has resulted in more price stability than we have seen prior to the implementation of the procurement plan. Commission Staff continues to work with the Company to evaluate the Company's procurement policies and to develop other hedging and purchasing practices with the intent of reducing gas costs and mitigating price volatility.

CONSUMER ISSUES

The Customer Notice and Press Release were included in Avista's original Application. The Application was received August 18, 2008. Staff reviewed the original 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 September 23, 2008 to file comments. As of September 22, 2008, fifteen customers, many on fixed incomes had commented, all opposing an increase to rates citing hardship, the reported huge profits of the Company and the high salaries of its executives.

Financial Assistance for Paying Heating Bills

Staff encourages customers who qualify for energy assistance to apply for the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and other non-profit fuel funds such as Project Share. For more information regarding assistance programs, customers may contact the local 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 original and revised Applications and gas purchases for the year, Staff recommends that the Commission accept the Company's revised Application and filed tariffs. In doing so, Staff recommends that the Commission accept the proposed Schedule 155 credit of 1.727 cents per therm and a WACOG of 78.646 cents per therm which results in a Schedule 150 surcharge 3.879 cents per therm for customers on tariff Schedules 101, 111 and 112 and a surcharge of 3.102 cents per therm for interruptible customers on Schedules 131 and 132. These recommendations will allow the Company to receive an additional $3,275,047 in annual revenue based on normal usage, which is an increase of 3.99%.

Staff also recommends that the Commission reserve the right to reopen this case and reevaluate any approved tariffs if the WACOG materially changes below that included in this Application.

Respectfully submitted this 23rd day of September 2008.

Scott Woodbury

Scott Woodbury
Deputy Attorney General

Technical Staff: Matt Elam
Donn English
Marilyn Parker

i:umisc:comments/aveg08.3swmedemp comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 23RD DAY OF SEPTEMBER 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-08-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220
E-MAIL: david.meyer@avistacorp.com

KELLY NORWOOD
VICE PRESIDENT – STATE & FED. REG.
AVISTA UTILITIES
PO BOX 3727
SPOKANE WA 99220
E-MAIL: kelly.norwood@avistacorp.com

Jo Nelson
SECRETARY