

DECISION MEMORANDUM

**TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF**

FROM: DONN ENGLISH

AVU-5-09-02

DATE: JANUARY 5, 2009

**SUBJECT: IN THE MATTER OF AVISTA UTILITIES' REQUEST FOR
AUTHORITY TO DECREASE ITS RETAIL RATES FOR NATURAL
GAS.**

On September 30, 2008, the Commission approved Avista Utilities' annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to increase its annualized revenues by \$11.6 million. Order No. 30646. Within its PGA Application, the Company affirmed that current commodity futures prices dictated the use of a \$0.78646 per therm weighted average cost of gas (WACOG) for its Schedule 150 Tariff and an amortization rate of 1.727 cents per therm for its Schedule 155 Tariff to refund to customers the credit balance in the deferred gas cost account.

On January 2, 2009, Avista filed an Application with the Commission for authority to decrease its rates. More specifically, the Company seeks to increase its Schedule 155 amortization rate by 5.984 cents per therm, refunding to customers approximately \$4.0 million between January and October 2009. This decrease reflects the refund of the increase in deferred gas costs due to customers since the Company's original PGA filing on August 18, 2008, updated September 12, 2008 for decreases in the WACOG. Avista's earnings will not be decreased as a result of the proposed changes in prices and revenues. The Company requests that new rates become effective January 6, 2009.

APPLICATION

With this Application, Avista seeks to refund to its Residential, Large General and Interruptible customer classes on Schedules 101,111 and 131 respectively, approximately 72% of the \$5.6 million deferral balance on November 30, 2008. The proposed changes would be

applicable to service rendered under the rate schedules affected by and subject to Avista's annual PGA.

The Schedule 155 amortization rate currently in rates is designed to return to customers approximately \$1.3 million from October 1, 2008 – October 31, 2009. Since September 30, 2008 wholesale natural gas prices have continued to fall below the projected prices included in the PGA filing. As a result of lower-cost gas purchases, deferred gas costs due to customers have grown significantly. This filing proposes to adjust the amortization rate to refund approximately \$4.0 million dollars to customers based on projected customer usage between January 6 and October 31, 2009. The Company is not, however, proposing to decrease the WACOG at this time.

The approximately \$4 million refund to customers represents 72% of the deferral balance of \$5.6 million at the end of November. The Company states that refunding the entire \$5.6 million would result in a refund rate of approximately ten cents per therm and would increase the possibility of a rate increase in the 2009 PGA filing. The Company contends that the present state of the economy and customers experiencing higher winter heating bills, reducing natural gas rates is appropriate at this time.

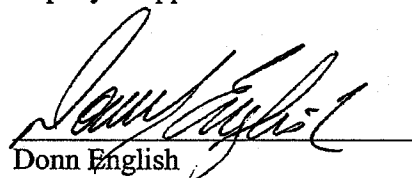
STAFF RECOMMENDATION

Staff has reviewed the Company's filing and proposed Schedule 155 amortization rate to refund to customers approximately \$4 million dollars during the remainder of the current PGA year. Although a larger decrease could be warranted, the potential for an increase later in 2009 would be greater. The Company will continue to defer all cost differences between the WACOG included in rates and the actual cost of gas incurred, and will continue to accrue interest on the balance of the deferrals. Therefore, Staff recommends that the Company's Application requesting authority to decrease its rates be approved without further delay or comment to be effective January 6, 2009.

COMMISSION DECISION

Does the Commission wish to approve the Company's Application to decrease rates without further comment?

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