Office of the Secretary
Service Date
October 27, 2010

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 (2010 PURCHASED GAS COST ADJUSTMENT).	))))))	**CASE NO. AVU-G-10-03** **ORDER NO. 32102**

On September 15, 2010, Avista filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to increase its annualized revenues by approximately $3.1 million, or about 4.3%. Application at 1. The PGA mechanism is used to adjust rates to reflect annual changes in Avista's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs. Avista's earnings will not be increased as a result of the proposed changes in prices and revenues. The Company requested that its Application be processed by Modified Procedure with its rates to become effective on November 1, 2010.

On September 30, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure and set an October 21, 2010, comment deadline. In addition to comments filed by Commission Staff, one public comment opposing a rate increase was filed by a residential customer. After reviewing the Application, comments, and record established in this case, the Commission approves the Company's Application, incorporating Staff's revised calculations, as more fully set forth below.

THE APPLICATION

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 various pipeline refunds or charges and miscellaneous revenue received from gas-related transactions, including pipeline capacity releases. Application at 2.

Avista's filing utilizes a WACOG of $0.458 per therm, or $0.461 per therm once the gross revenue factor (GRF) is included to reflect an allowance for uncollectibles and Commission fees. This is lower than the currently approved WACOG of $0.491 per therm. The

Application asserts that daily wholesale natural gas prices have been higher this year than last year, thus impacting the cost of purchased natural gas for storage pricing. However, prices in the forward market have been lower this year than what is currently embedded in rates. The decrease in forward market prices offsets the increase in storage prices, leading to a drop in the proposed WACOG.

The Company has been hedging gas on a periodic basis throughout 2010 for the coming PGA year. 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) 41% of volumes hedged for a term of one year or less; (2) 19% of prior multi-year hedges; and (3) 10% from underground storage. The Company states that through August 2010, the planned hedge volumes for the PGA year have been executed at a weighted average price of $0.542 per therm.

The demand costs included in the Company's Application primarily represent the costs of pipeline transportation to the Company's system. Application at 3. Avista proposes a slight increase in demand charges due to a change in tariffs on the TransCanada (Alberta) and TransCanada (BC) pipelines. *Id.*

The Company is also proposing an amortization rate change of $0.035 per therm for interruptible service customers and an amortization rate change of $0.062 per therm for general and large general service customers. The expiration of the large 2009 amortization refund is the main change in the proposed amortization rate. Included in the proposed refund rate is a substantial deferral balance that the Company was refunding over the past year through Schedule 155 that was not fully refunded to customers as natural gas loads for the winter 2009/2010 were softer than projected. As a result, the proposed amortization rate still reflects some level of previous deferrals, allowing for a lower proposed rate for customers.

Avista asserts that it notified customers of its proposed increase in rates by posting a notice at each of the Company's district offices in Idaho, by means of a press release distributed to various informational agencies, and by separate notice to each of its Idaho gas customers via a bill insert.

THE COMMENTS

Staff reviewed the Company's Application to determine whether its adjustments to Schedule 150 and 156 reasonably capture its fixed (demand) and variable (commodity) costs. More specifically, Staff reviewed the Company's pipeline transportation and storage costs, fixed price hedges, estimates of future commodity prices, and its risk management policies. Staff also reviewed the appropriateness of the Schedule 155 change in amortization rates that "true up" the expenses from the 2009 PGA.

The Company filed proposed rate changes that would result in an increase of approximately $3.1 million, or about 4.3%. Subsequent to the filing, the Company notified Staff that its filing contained a calculation error and omitted a deferred credit of approximately $2,000. In addition, the gross revenue factor (GRF) for uncollectibles and Commission fees should be applied only to the rate change instead of to the entire rate. The revised rates result in a revenue increase of approximately $2.9 million (as opposed to $3.1 million), or about 3.9%. Under the revised rates, a residential or small business customer served under Schedule 101 using an average of 63 therms per month can expect to see an average increase of approximately $2.53 per month, or about 4.5%.

The Company proposes a WACOG of $0.45817 per therm. This is lower than the currently approved WACOG of $0.491 per therm. The primary reason for the decline in the WACOG is the continuing decline in natural gas prices due to the weakness in our regional and national economy that has reduced the weather adjusted demand for natural gas during a period of time when natural gas supplies have been plentiful. Staff reviewed the Company's proposed WACOG of $0.458 per therm and its forecasted natural gas prices through October 2011. Staff believes the Company's forecasted natural gas prices are reasonable.

The Schedule 155 portion of the PGA is the amortization component of the Company's deferral account. Although gas prices have been lower than the WACOG anticipated in the Company's 2009 filing, the current refund rate required to amortize the current deferral is less than the refund rate approved in the 2009 PGA filing. The net effect of the adjustments is an increase of $4.5 million. Combining the two rate schedules (the reduction of the WACOG in Schedule 156 of $1.6 million and the increase in Schedule 155 of $4.5 million) results in a total revenue increase of $2.9 million.

Staff recommended approval of a WACOG of $0.45817 per therm. Staff also recommended the Commission accept the Schedule 155 (Gas Rate Adjustment) amortization for deferral balances. The combination of the first two recommendations results in an increase of $2.9 million, or about 3.9%. Staff also recommended the Commission reserve the right to reopen this case and re-evaluate any approved tariffs if the WACOG materially changes below that included in this Application.

One residential customer filed a comment opposing any rate increase until the economy recovers.

DISCUSSION AND FINDINGS

We have reviewed the record for this case, including the Application and comments. The Commission has jurisdiction over Avista Corporation, a public utility, its Application for authority to change rates and prices, and the issues involved in this case pursuant to Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-117, 61-129, 61-307, 61-501, and 61-502, along with the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq*.

The Commission is required to establish just, reasonable, and sufficient rates for utilities subject to our jurisdiction. *Idaho Code* § 61-502. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage and other related costs of acquiring and delivering natural gas. The Company's earnings are not increased from changes in prices and revenues resulting from the annual PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

Avista follows a flexible, diversified natural gas purchasing plan and effectively manages its underground natural gas storage facility. This allows Avista to provide more stable and lower prices to its customers. However, the natural gas market continues to be volatile. Prices in the forward market have been lower than what is currently embedded in rates. Consequently, we find it reasonable to decrease the approved WACOG from $0.49093 per therm to $0.45817 per therm. The Company's proposed WACOG was compared to other forecasts and is consistent with the forecasted northwest regional cost of natural gas.

Despite approval of a decrease in the WACOG, the current refund rate required to amortize the current deferral is less than the significant refund rate approved in the 2009 PGA filing. The net effect is an increase in Schedule 155 of $4.5 million. When offset by the decrease in the WACOG, the result is a total revenue increase of $2.9 million. We find it reasonable to decrease the WACOG to $0.45817 per therm. We further approve the proposed 12-month amortization of deferred expenses.

Finally, the Commission directs the Company to promptly file an application amending its WACOG should gas prices materially deviate from the presently approved $0.45817 per therm.

ORDER

IT IS HEREBY ORDERED that Avista's Purchased Gas Cost Adjustment (PGA) Application is approved. The Company shall increase its annualized revenues by $2.9 million and establish a weighted average cost of gas of $0.45817 per therm. The Company is directed to file conforming tariffs to be effective November 1, 2010.

IT IS FURTHER ORDERED that Avista promptly file an application to amend its WACOG should gas prices materially deviate from the presently approved $0.45817 per therm.

IT IS FURTHER ORDERED that Avista Utilities continue to file quarterly WACOG projections and monthly deferred cost reports with the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 27th day of October 2010.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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