DECISION MEMORANDUM

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

FROM: **KRISTINE SASSER**
DEPUTY ATTORNEY GENERAL

DATE: **SEPTEMBER 23, 2010**

SUBJECT: **IN THE MATTER OF AVISTA'S 2010 PGA, CASE NO. AVU-G-10-03**

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 requests that its Application be processed by Modified Procedure and that its rates become effective on November 1, 2010.

THE APPLICATION

The Company states that if the proposed changes are approved its annual revenue will increase by approximately $3.1 million, or 4.3%. The average residential or small commercial customer using 63 therms per month will see an increase of $2.75 per month.

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 proposes *decreasing* the WACOG from the currently approved $0.491 per therm to $0.461 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 offset 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 of $0.035 per therm for interruptible service customers and a rate of $0.062 per therm for general and large general service customers. The change in amortization rates is a result of the large 2009 refund amortization rate. Included in the proposed refund rate is a substantial deferral balance that the Company was recovering 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 has 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 Company requests that this matter be handled under Modified Procedure pursuant to Rules 201-210 of the Commission's Rules of Procedure.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with comments due no later than October 21, 2010.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure with comments due no later than October 21, 2010?

Kristine A. Sasser

Kristine A. Sasser
Deputy Attorney General

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