

## **DECISION MEMORANDUM**

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

**FROM:       KRISTINE SASSER  
DEPUTY ATTORNEY GENERAL**

**DATE:       SEPTEMBER 24, 2009**

**SUBJECT:    IN THE MATTER OF AVISTA'S 2009 PGA, CASE NO. AVU-G-09-05**

On September 15, 2009, Avista Corporation filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by approximately \$14.7 million. 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 decreased 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, 2009.

### **THE APPLICATION**

The Company states that if the proposed changes are approved its annual revenue will decrease by approximately \$14.7 million or 17.8%. The average residential or small commercial customer using 66 therms per month will see a decrease of \$12.74 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 the revenue received from the release of its storage capacity as well as various pipeline refunds or charges and miscellaneous revenue received from gas-related transactions.

Avista proposes decreasing the WACOG from the currently approved \$0.760 per therm to \$0.491 per therm. The Application asserts that wholesale gas prices have fallen dramatically

since July 2008 and the Company has been hedging gas on a periodic basis throughout 2009 for the coming PGA year. The Company states that approximately 64% of its estimated annual load requirements for the PGA year will be hedged at a fixed price comprised of: (1) 42% of volumes hedged for a term of one year or less; (2) 10% of prior multi-year hedges; and (3) 12% from underground storage. The Company states that through August 2009, most of the planned hedge volumes for the PGA year have been executed at a weighted average price of \$0.582 per therm.

The demand costs included in the Company's Application primarily represent the costs of pipeline transportation to the Company's system. Avista's proposal includes essentially no change in the demand cost included in rates. Application at 4.

The Company is proposing a change in the present amortization rate that is used to refund or surcharge customers the difference between actual gas costs and projected gas costs from the last PGA filing through the past year. The present amortization rate for firm sales customers is a \$0.1580 per therm refund. Avista is proposing a \$0.760 per therm increase in the amortization rate for firm sales customers. In order to mitigate a potential 2010 PGA increase, the Company proposes to refund the deferral balance over a two-year period, rather than one. Application at 4.

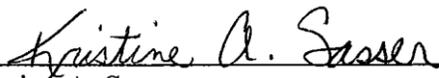
Avista asserts that it has notified customers of its proposed decrease in rates by posting a notice at each of the Company's district offices in Idaho, by means of a press release distributed to various informational agencies, and by separate notice to each of its Idaho gas customers via a bill insert. 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 by October 16, 2009.

#### **COMMISSION DECISION**

1. Does the Commission wish to process this case under Modified Procedure with comments due no later than October 16, 2009?

  
\_\_\_\_\_  
Kristine A. Sasser  
Deputy Attorney General

M:AVU-G-09-05\_ks