

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: LISA NORDSTROM

DATE: JULY 26, 2004

**RE: IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR
AUTHORITY TO INCREASE ITS PURCHASED GAS COST ADJUSTMENT
(PGA) RATE. CASE NO. AVU-G-04-2.**

On July 23, 2004, Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission for authority to place into effect on September 9, 2004, new rate schedules that will increase its annualized revenues by \$7.8 million. Avista states that any increases resulting from this PGA filing directly results from the cost of gas purchased in the marketplace; Avista Utilities makes no additional profits from the PGA rate change. If this Application is approved, Avista states that Company revenues will increase by approximately 14.2%. When combined with the base rate increase requested in pending Case No. AVU-G-04-1, Company revenues could increase by approximately 22%.¹

THE APPLICATION

Avista believes this Application should be approved because it purchases natural gas from a subsidiary of Avista Corporation, Avista Energy, under the provisions of tariff Schedule 163 (the Natural Gas Benchmark Mechanism). Avista transports this gas over Williams Pipeline West (dba Northwest Pipeline Corporation) and Westcoast Pipeline systems and defers the effect of timing differences due to implementation of rate changes and differences between Avista's actual weighted average cost of gas (WACOG) purchased and the WACOG embedded in rates. Avista also defers the revenue received from Cascade Natural Gas for the release of storage

¹ The 22% combined increase is comprised of a 14.2% PGA revenue increase in this case and the 7.82% base rate increase requested in the Company's rebuttal testimony filed in Case No. AVU-G-04-1.

capacity at the Jackson Prairie Storage Facility, various pipeline refunds or charges, and miscellaneous revenue received from gas-related transactions.

Avista filed proposed tariff sheet 150, which increases the prospective natural gas cost component included in the rates charged to customers by 11.730 cents per therm. This requested rate change consists of an increase of 10.750 cents per therm related to the (variable) commodity cost of purchasing and transporting gas for customer usage and an increase of .980 cents per therm related to fixed pipeline costs.

The commodity cost increase is based on a proposed increase in the present WACOG included in the Company's gas service schedules. Gas prices have increased markedly since fall 2003. The Company's present WACOG included in its gas sales rates is 44.989 cents per therm, which was approved by Commission Order No. 29342. The WACOG proposed in this requested increase is 55.739 cents per therm, reflecting the first-of-the-month (FOM) forward gas prices as of July 13, and hedges executed to date. FOM forward prices, weighted by basin, are multiplied by the monthly projected load requirements, less volumes hedged to date. The Company has executed three hedges to date for the coming winter (November-March) at an average price of 58.4 cents per therm. Additional hedges will be executed prior to this winter, with total hedged volumes representing approximately 50% of the total annual projected load requirements for the July 2004-June 2005 period. Should future FOM or hedged prices substantially change the WACOG requested in this filing, Avista committed to revise this filing or submit an additional PGA filing to reflect those changes.

In this filing, Avista is not proposing to change the present amortization rate(s) set forth under Schedule 155. This amortization rate is used to refund or surcharge customers the difference between actual gas costs and projected gas costs (from the last PGA filing) over the past year. The Company has a deferred gas cost balance of approximately \$3.3 million, as of June 30, 2004, reflecting higher gas costs than projected during the past year. However, the present amortization rate is a surcharge of 3.093 cents per therm, which would recover the present deferral balance over an approximate 18-month period. The Company believes this estimated recovery period is reasonable and, given the substantial increase proposed in the WACOG, is not proposing a change to the amortization rate.

If the Commission approves the proposed increase, firm sales customers on Schedules 101, 111, 112, 121 and 122 will see a rate increase of 11.730 cents per therm. Interruptible sales

customers on Schedules 131 and 132 will see a rate increase of 10.750 cents per therm. The Application presumes that upon completion of this PGA tracker case, the Company's tariff Schedule 150 will be changed to appropriately address both base rate and PGA tracker changes.

Avista is proposing that the large transportation and interruptible customers be given the option of receiving/paying their portion of the deferred gas costs either through a lump sum credit/charge or through an amortization rate. If these customers choose the lump sum method, Avista proposes to adjust these billings credits/charges by the amount of interest that accumulates from the end of the test period used in this filing to the date of actual settlement. This proposal would clear out the small residual balances related to interest charges that are carried forward between PGA filings for large customers.

If the Application is approved, Avista states that the Company's estimated annual natural gas revenue will increase by approximately \$7.8 million (14.2%). Avista estimates that the average residential customer using 70 therms per month would see their monthly bill increase by approximately \$8.21 (14.2%). Larger commercial customers would experience an average increase between 15.9% and 17.2%, with the higher increase percentages due to lower base rates. Incorporating its proposed changes to Rate Schedules 150, Avista recommends the following annualized change in PGA rates per customer class:

Customer Class	Schedule	Proposed Average Increase \$ /Therm	Estimated Average Increase % Change	Proposed Average Price \$/Therm
General	101	\$0.11730	14.23%	\$0.89446
Large General	111	\$0.11730	15.92%	\$0.85418
Commercial	121	\$0.11730	17.24%	\$0.79758
Large General	112	\$0.11730	17.51%	\$0.78702
Interruptible	131	\$0.10750	18.06%	\$0.70268
Interruptible	132	\$0.10750	19.19%	\$0.66768
Transportation	146	none	none	\$0.10574

The Company requests these rates be approved to become effective September 9, 2004 and that this matter be handled under Modified Procedure pursuant to Rules 201-210 of the Commission's Rules of Procedure.

STAFF RECOMMENDATION

Avista has informed Staff that all of its customers will have received individual notice (i.e., bill stuffers) of the proposed rate increase by August 24, 2004. Staff recommends the Commission issue a final Order utilizing the September 9, 2004 effective date proposed by Avista to coincide with the change in gas rates resulting from the Company's pending general rate filing in Case No. AVU-G-04-1. Anticipating that this case will be on the August 30 decision agenda, Staff recommends that the Commission process the case under Modified Procedure and establish an August 26 comment deadline.

COMMISSION DECISION

1. Does the Commission wish to process this case under Modified Procedure?
2. Pursuant to Commission Procedural Rule 125, does the Commission wish to have Staff conduct public workshops to dispense information concerning the Company's Application and receive public comment prior to Staff filing comments in this case?


Lisa Nordstrom

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