

DECISION MEMORANDUM

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

FROM: DONOVAN E. WALKER

DATE: SEPTEMBER 20, 2005

SUBJECT: AVISTA'S 2005 PGA – CASE NO. AVU-G-05-2

On September 12, 2005, Avista Utilities filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission requesting authority to place new rate schedules in effect as of November 1, 2005 that will increase its annualized revenues by \$15.7 million (23.8%). The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from wholesale suppliers including transportation, storage, and other related costs of acquiring natural gas. 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.

THE APPLICATION

According to Avista's Application if the requested price increase is approved the Company's annual revenue will increase by approximately \$15.7 million or about 23.8%. The average residential customer using 70 therms per month would see an estimated increase of \$16.36 per month.

Avista 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. Avista 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.

The Company requests an increase in the prospective natural gas cost component included in the rates charged to customers by 21.443 cents per therm. This consists of an increase of 21.047 cents per therm related to the commodity cost of purchasing and transporting gas for customer usage and an increase of .396 cents per therm related to fixed pipeline costs.

Avista requests an increase in the present WACOG from 55.739 cents per therm to 76.786 cents per therm, an increase of 21.047 cents. This reflects first-of-the-month (FOM) forward gas prices as of August 4, 2005, and the Company's hedges executed to date. The Company executes hedges to fix the price of gas on approximately 50% of its estimated annual gas sales for the year, and uses a dollar-cost averaging approach for executing hedges, with those volumes divided into 45-day execution windows between February 15 and November 15. The Company states that it has completed approximately 80% of its scheduled hedges for the upcoming PGA year, November through October.

The Company is also proposing a change in the present amortization rate, which 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. Avista proposes to increase the amortization rate from the present surcharge of 3.093 cents per therm to 5.027 cents per therm. The Company states it has a deferred gas cost balance of approximately \$3.5 million as of June 30, 2005, reflecting higher gas costs than projected during the past year. The proposed increase in the amortization rate is expected to recover this balance over 12 months.

The Company states that notice of its proposed increase in price has been accomplished by posting a notice at each of the Company's district offices in Idaho, a press release distributed to various informational agencies, and a separate notice to each of its Idaho gas customers included in their billing. Avista attached copies of these notices to its Application.

STAFF RECOMMENDATION

Given the size of the requested increase, as well as the proposed effective date of November 1, 2005, Staff recommends that this case be processed under Modified Procedure with comments due by October 20, 2005. Additionally, Staff recommends that a public workshop be conducted in Coeur d'Alene prior to Staff submitting comments.

COMMISSION DECISION

1. Does the Commission preliminarily find that the public interest may not require a hearing to consider the issues presented, and that this proceeding may be processed under Modified Procedure?

2. Does the Commission wish to have Staff conduct a public workshop(s), pursuant to Rule 125, prior to Staff filing comments in this case?

3. Does the Commission wish to schedule a public hearing for this matter? If so, does the Commission prefer to hold the public hearing in conjunction with the public workshop, or schedule a public hearing after the submission of comments?



Donovan E. Walker

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