

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION DBA AVISTA)	CASE NO. AVU-G-08-02
UTILITIES FOR AN ACCOUNTING ORDER)	
AUTHORIZING ACCOUNTING ENTRIES)	
RELATED TO THE TERMINATION OF THE)	
STORAGE AGREEMENT BETWEEN)	ORDER NO. 30604
AVISTA UTILITIES AND TERASEN GAS,)	
INC.)	
)	

On June 13, 2008, Avista Corporation filed an Application requesting an accounting order related to the termination of a Gas Storage Agreement between the Company and Terasen Gas, Inc. In 1982, Avista and Terasen (formerly known as BC Gas) entered into an agreement for the storage and subsequent release of natural gas at Avista's Jackson Prairie underground storage facility. The Agreement with Terasen was terminated May 1, 2008. On May 1, Avista began using the former Terasen storage capacity to serve its own customers.

On July 2, 2008, the Commission issued a Notice of Application and Notice of Modified Procedure requesting comments on Avista's request for an accounting order. The only comments filed in response to the Commission's Notice were those of the Commission Staff. Based upon our review of the record, we grant Avista's request for an accounting order as described in greater detail below.

THE APPLICATION

Under the terminated Agreement, Terasen paid Avista \$191,121 per month for the storage and eventual delivery of gas to Terasen. The Idaho jurisdictional revenue from the contract was \$54,388 per month and this amount is embedded in the current rates paid by Idaho customers. The Company's current general rate case (AVU-G-08-01) recognizes the termination of the Terasen Agreement. However, until the new general rates become effective, Idaho customers are currently receiving a revenue "credit" of \$54,388 each month although the revenue is no longer being received from Terasen. Consequently, the Company requested that the Commission approve an accounting order for the Company to record these deferred "costs" to Account 191 in the amount of \$54,388 each month beginning May 1, 2008, and ending on the date on which its new gas rates become effective. The deferred costs associated with any partial

month “would be prorated accordingly.” Application at 3. This deferred amount would be included with all other deferred gas costs and be recovered through rates as part of the Company’s annual PGA filing.

STAFF COMMENTS

The Commission Staff supported the Company’s request to record the revenue lost from the recall of the capacity released to Terasen Gas as deferred “costs” in Account 191. The Staff agreed with the Company that Idaho customers are currently receiving a monthly benefit of \$54,388 until new rates go into effect. The Staff also noted the Company is “not requesting a rate increase or additional monies beyond what it has been previously authorized to receive, but rather is requesting the ability to recover revenues that were embedded in base rates that it is no longer receiving.” Staff Comments at 2.

Staff disclosed that it has known for some time that Avista intended to terminate its Terasen storage agreement this year. Staff asserted that the extra capacity formerly provided to Terasen will allow Avista to better meet the needs of its customers during the winter months. Staff calculated that the \$2.3 million annual revenue formerly received from Terasen will be offset by approximately \$3.8 million the Company can achieve by taking advantage of a summer/winter price differential in natural gas. Based upon a conservative \$1.65/dekatherms differential between winter prices and summer prices, Staff calculated that the net benefit to Idaho customers is approximately \$500,000 annually. *Id.* at 3.

Staff’s only concern with the requested accounting treatment was that it will contribute to a substantial rate increase in the Company’s September 2008 PGA filing. Typically, gas utilities use the summer months to fill underground storage facilities. The stored gas is then used to serve customers in the winter when gas prices have been traditionally higher. Staff reported that NYMEX and Sumas gas futures indicate that natural gas prices may be over \$14/dekatherms this winter, or approximately \$2/dekatherms more than current prices. Staff estimated that Avista’s Idaho gas customers are facing an increase of 20-25% in retail rates this fall from the annual PGA filing. This increase would be in addition to any increase in base rates as a result of the Company’s general rate case currently before the Commission. *Id.*

Staff estimated that the requested accounting deferral will result in an additional balance of approximately \$330,000 for six months before new base rates become effective on or about November 1, 2008. Although this will put upward pressure on PGA rates, any increase in

rates going forward will be less than what they would have been otherwise without the termination of the storage agreement. In addition, Avista's gas customers benefit by having the additional capacity available for their use. Consequently, the Staff recommends the Commission approve the Company's Application for a deferred accounting order.

COMMISSION FINDINGS

Based on our review of the Company's Application and the Staff comments, we find it reasonable to grant Avista's request for a deferred accounting order. Although Avista has terminated its gas storage agreement with Terasen Gas, revenues from the old contract are still embedded in current rates. We find it reasonable for Avista to defer \$54,388 monthly in gas costs to Account 191 beginning May 1, 2008. The deferred accounting will end on the effective date when the Commission approves new gas rates in the Company's current general rate case (AVU-G-08-01). We recognize that the Company is not requesting an immediate rate increase to compensate for the lost revenue; rather the Company is requesting the ability to recover the imputed revenue that it is no longer receiving. We further find it reasonable that any deferred costs associated with any partial month should be prorated accordingly. Application at 3.

ORDER

IT IS HEREBY ORDERED that Avista Corporation's Application for a deferred accounting order is granted. Effective May 1, 2008, the Company shall record its deferred gas costs caused by the termination of the Terasen Agreement in Account 191 in the amount of \$54,388 each month. This deferral will cease on the effective date of new base rates in Case No. AVU-G-08-01.

IT IS FURTHER ORDERED that any deferral gas costs associated with any partial month shall be prorated accordingly.

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

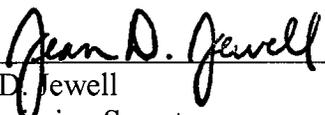
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th
day of July 2008.


MACK A. REDFORD, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


JIM D. KEMPTON, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

bls/O:AVU-G-08-02_dh2