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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
AVISTA CORPORATION DBA AVISTA) **CASE NO. AVU-G-08-2**
UTILITIES FOR AN ACCOUNTING ORDER)
AUTHORIZING ACCOUNTING ENTRIES)
RELATED TO THE TERMINATION OF THE) **COMMENTS OF THE**
STORAGE AGREEMENT BETWEEN AVISTA) **COMMISSION STAFF**
UTILITIES AND TERASEN GAS, INC.)

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, submits the following comments in response to Order No. 30587 issued on July 2, 2008.

BACKGROUND

On June 13, 2008, Avista Corporation dba Avista Utilities filed an Application requesting an accounting Order related to the termination of a Gas Storage Agreement (“the 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. Under the Agreement, Terasen paid Avista \$191,121 per month for the storage and

eventual delivery of gas to Terasen. The Idaho jurisdictional revenue from Terasen, \$54,388 per month, is embedded in the current rates paid by Idaho customers.

The Agreement with Terasen was terminated May 1, 2008. On May 1, Avista began using the Terasen storage capacity to serve its own customers. "The benefits associated with this recalled storage capacity are directly passed on to customers through the Company's annual PGA filing." Application at 2.

The termination of the Agreement is incorporated in the Company's current general rate case (AVU-G-08-1). However, until the Commission authorizes new general rates to become effective, Idaho customers are currently receiving a credit of \$54,388 each month although the revenue under the Agreement is no longer being received. Consequently, the Company requests that the Commission approve an accounting Order for the Company to record the additional deferred gas costs to Account 191 in the amount of \$54,388 each month beginning May 1, 2008 and ending on the date in which its new gas rates become effective. The deferred costs associated with a partial month "would be prorated accordingly. *Id.* at 3. This deferred amount would be included with all other deferred gas costs and be recovered through the rates as part of the Company's annual PGA filing.

STAFF REVIEW

Staff has reviewed the Company's Application and is generally supportive of the Company's request to record the revenue lost from the recall of the capacity release to Terasen Gas as deferred gas costs in Account 191. The revenue that was received from Terasen was embedded in the calculation of the Idaho revenue requirement in the previous general rate case, and without that revenue, Idaho gas customers are essentially receiving a monthly benefit of \$54,388 until new rates go in effect from the current rate case AVU-G-08-1. It is important to note that 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.

The Company has kept Staff well apprised of its intent to recall the excess capacity that it had released to Terasen. The terms of the original contract required that Avista provide Terasen with two years notice prior to recalling the capacity. The Company had informed Staff of its decision on several occasions prior to notifying Terasen and Staff has supported the decision in both its PGA comments and natural gas IRP comments. The extra capacity will allow the

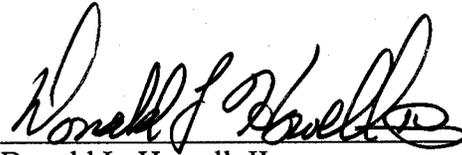
Company to better meet the needs of its customers in the cold winter months and will provide additional use in the summer months as the Company injects gas into storage. The \$2.3 million annual revenue received from Terasen will be offset by approximately \$3.8 million the Company can achieve by taking advantage of a summer/winter price differential in natural gas. For its analysis, the Company used a modest \$1.65/dekatherm differential between winter prices and summer prices. Staff accepts the Company's analysis as conservative, as we have seen larger swings in prices between the seasons in the past. The net benefit to customers is approximately \$1.5 million per year system-wide or about \$500,000 annually for Avista's Idaho gas customers.

Staff's main concern with the requested accounting treatment is that it will contribute to the substantial rate increase that Staff anticipates coming in the Company's September PGA filing. With the exception of a brief spike after Hurricane Katrina, natural gas prices have reached record highs this summer. Typically, gas utilities use the summer months to fill underground storage facilities that are then used to serve load in the winter when natural gas prices have been traditionally higher. Even with record high gas prices this summer, NYMEX and Sumas futures indicate that natural gas may be over \$14/dekatherm this winter, or approximately \$2/dekatherm more than current prices. Early estimates indicate that Avista's Idaho gas customers are facing an increase of 20-25% in retail rates this fall from the annual PGA filing, on top of any increase in base rates as a result of the Company's general rate case currently before the Commission.

STAFF RECOMMENDATION

When new base rates become effective around November 1, 2008, the additional balance of approximately \$330,000 (\$55,000 per month for 6 months) from the recalled Terasen contract will provide upward pressure on PGA rates of approximately 0.4%. However, with the annual benefit of the additional capacity reflected in future PGA cases, any increases in rates going forward will be less than what they would otherwise have been without the recall. Therefore, Staff recommends that the Commission approve the Company's Application.

Respectfully submitted this 23^d day of July 2008.



Donald L. Howell, II
Deputy Attorney General

Technical Staff: Donn English

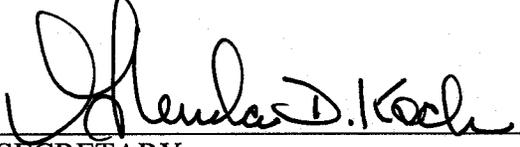
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 23RD DAY OF JULY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-08-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY