BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR AUTHORITY TO CHANGE ITS NATURAL GAS RATES AND CHARGES (2008 PURCHASED GAS COST ADJUSTMENT)	**CASE NO. AVU-G-08-03** **ORDER NO. 30646**

On August 18, 2008, Avista Corporation dba Avista Utilities (Avista; Company) filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Idaho Public Utilities Commission (Commission) requesting authority to place new rate schedules in effect as of October 1, 2008 that would increase its annual natural gas revenues by approximately $11.6 million (14.2%). On September 15, 2008, Avista filed a Revised PGA Application and tariff sheets to revise the Company's proposed weighted average cost of gas (WACOG) to reflect a reduction in wholesale natural gas prices. The Revised Application reduces the Company's proposed PGA increase to $3,275,047 or approximately 3.99%.

The Commission issued a Notice of Application and Modified Procedure on August 28, 2008, establishing a comment/protest deadline of September 23, 2008. The Commission received comments from Commission Staff and 15 of the Company's customers. After reviewing the comments and record in this case, the Commission approves the Company's Revised Application, as more fully set forth below.

The Revised Application

Avista states that if the proposed changes in its revised PGA are approved its annual revenue will increase by approximately $3.3 million or about 4.0%. Under the revised rates, the average residential or small commercial customer using 65 therms per month will see an estimated increase of $2.96 per month, or approximately 3.9%. The present bill for 65 therms is $75.14, while the proposed bill is $78.10. The actual increase will vary based on customer usage.

Schedule 150 – Purchased Gas Cost Adjustment

The Purchased Gas Cost Adjustment is a forward-looking adjustment that reflects the anticipated changes in the variable costs to purchase, transport and store natural gas for customers. Since the Company's original filing, Avista states that wholesale prices for natural gas have continued to fall. During this time, the Company purchased additional natural gas for the coming year, both for injection into underground storage and at (hedged) forward prices for delivery throughout the year. The revised filing reflects a lower commodity cost for these additional purchases/hedges, as well as lower projected prices for (spot) gas that will be purchased during the forthcoming year.

WACOG

Avista originally requested a weighted average cost of gas (WACOG) of \$0.90167/therm for the coming PGA year. Only the WACOG was changed in the Company's revised filing. The revised WACOG is \$0.78646/therm, a 4.11% increase from 2007. The proposed WACOG reflects a Schedule 150 increase of 3.102¢ per therm over the WACOG in present rates for interruptible customers on Schedule 131 and 132 and an increase of 3.879¢ per therm for customers on Schedules 101, 111, and 112.

Schedule 155 – Deferred Expenses

The Company's Schedule 155 amortization rate is used to refund or surcharge customers the difference between the actual gas costs and the projected gas costs allowed in the previous PGA filing. Avista in this filing proposes to increase the present Schedule 155 amortization rate by 0.664¢/therm from the current customer credit of 2.391¢/therm. The proposed credit of 1.727¢/therm will allow the Company to refund to customers in the coming PGA year approximately \$1.3 million in over-recovery of deferred costs for 2007. Any over-collection or under-collection will be trued up in next year's PGA filing.

The Company's proposed annual Purchased Gas Cost Adjustment (PGA) is intended to (1) pass through changes in the estimated cost of natural gas for the forthcoming year (Schedule 150), and (2) revise the amortization rate(s) to refund or collect the balance of deferred gas costs (Schedule 155). Below is a table summarizing the proposed changes reflected in the Company's revised filing.

Service	Schedule No.	Commodity Change per therm	Demand Change per therm	Total Sch. 150 Change	Sch. 155 Amort. per therm	Total Rate Change per therm	Percent Change
General	101	$0.03102	$0.00777	$0.03879	$0.00664	$0.04543	3.9%
Lg. General	111	$0.03102	$0.00777	$0.03879	$0.00664	$0.04543	4.4%
Interruptible	131	$0.03102	--	$0.03102	$0.00664	$0.03766	3.5%
Transport	146	--	--	--	--	$0.00000	0.0%

The circumstances and conditions relied on for approval of the Company's revised rates are as follows: Avista purchases natural gas for customer usage and transports it over Williams Pipeline West (dba Northwest Pipeline Corporation), Gas Transmission Northwest (GTN), TransCanada (Alberta), TransCanada (BC), and West Coast Pipeline Systems and defers the effective timing differences due to implementation of rate changes and differences between Avista's actual weighted average cost of gas (WACOG) purchased and WACOG embedded in rates. Avista also defers various pipeline refunds or charges and miscellaneous revenue received from gas-related transactions including pipeline capacity releases.

As reflected in attachments to the Company's filing, many factors have contributed to the volatility of natural gas prices, making this an especially challenging year for Avista as it purchases the commodity to serve its customers during the 2008-2009 heating season. The spring and summer natural gas prices, it states, soared to levels not seen since Hurricanes Rita and Katrina. Although natural gas prices decreased about 30% in August, prices remain above levels at this time a year ago.

The Company's Director of Natural Gas Supply, Kevin Christie, notes that an unusually long, cold spring depleted storage reserves across the country, that natural gas imports from Canada to the United States are declining, and that international demand has lured liquefied natural gas (LNG) away from the U.S., putting pressure on natural gas prices. Higher crude oil prices have put upward pressure on natural gas prices. Pricing for both of those energy commodities, Christie states, tends to be correlated.

Avista follows a structured natural gas purchasing plan that allows for flexibility based on market prices and conditions. Currently, about 67% of estimated customer demand for the upcoming year is either pre-purchased or placed in storage. This year Avista has increased its underground Jackson Prairie storage capacity from 11% to 21% of expected annual demand requirements. Storage is a valuable asset that allows the Company to purchase lower-cost gas during the spring and summer months and store it for use during the heating season when wholesale gas prices are typically highest. However, prices for natural gas during this year's spring and summer time period are higher than in prior years.

Notices of Application and Modified Procedure in Case No. AVU-G-08-03 were issued on August 28, 2008. A Notice of Revised Application was issued on September 17, 2008. The deadline for filing written comments was September 23, 2008. Comments were filed by Commission Staff and 15 of the Company's customers. The customers, some on fixed incomes, all oppose an increase to rates citing hardship, the reported huge profits of the Company and the excessive salaries of its executives. The Commission Staff reviewed the Company's original and Revised Applications and performed an audit. Staff reviewed the Company's hedging and risk management policies, gas purchases, and deferred accounts. After a complete examination of the Company's original and Revised Applications and gas purchases for the year, Staff recommends that the Commission accept the Company's Revised Application and filed tariffs.

Commission Findings

The Commission has reviewed the filings of record in Case No. AVU-G-08-03, including the Company's initial and revised Applications, and the comments and recommendations of Commission Staff and Avista customers. We continue to find that Modified Procedure is appropriate and that public interest does not require a hearing to consider the issues presented in this case. RP 204.

Customers opposing the Company's proposed PGA increase cite, as a reason for denial, hardship, the huge Company profits reported by a local newspaper and the excessive salaries of Avista executives. We address those concerns in the Company's general rate case (AVU-G-08-01) and do not address them here. We assure the customers that neither the Company's corporate profits nor executive salaries are included in or increased by the PGA. The Commission is required to establish just, reasonable and sufficient rates for Avista. *Idaho Code* § 61-502. It is not possible for us to just say "no" to increases that have been shown to be necessary to maintain a utility's financial health. To do so would violate the law.

We encourage customers who qualify for energy assistance to apply for the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and other non-profit fuel funds such as Project Share. For more information regarding assistance programs, customers may contact the local Community Action Agency, Avista Utilities, the Commission, or the 2-1-1 Idaho Care Telephone Line.

The Company's PGA mechanism is designed to pass-through prudently incurred commodity costs in a timely fashion. Avista follows a price stabilization practice of systematically fixing portions of gas costs using physical hedges and financial instruments in a purchasing program aimed at achieving a diversified gas portfolio. The natural gas market in the Northwest continues to be volatile. In this case Avista monitored the changing market conditions and took advantage of lower prices when the opportunity arose. Through its prudent actions and purchases the Company was able to significantly reduce its weighted average cost of gas from the date of its original filing. Its customers benefitted from its vigilance.

The Company in its revised PGA filing requests authority to implement a 2008 PGA surcharge that will increase annual revenue for natural gas service by approximately $3.3 million or about 4%. We find that the record in this case supports the implementation of the Company's revised PGA request. We find it reasonable to approve the Company's Revised Application and filed tariffs. In doing so, we find it reasonable to approve the proposed Schedule 155 credit of 1.727¢/therm and a WACOG of 78.64¢/therm. The changes we approve result in a Schedule 150 surcharge of 3.879¢/therm for customers on tariff Schedules 101, 111, and 112 and a surcharge of 3.102¢/therm for interruptible customers on Schedules 131 and 132.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities, a natural gas utility, and the issues raised in this case, by virtue of Title 61, Idaho Code, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED that Avista's Revised Application in Case No. AVU-G-08-03 is approved. In doing so, we approve a Schedule 155 credit of 1.727¢/therm, a WACOG of 78.646¢/therm, a Schedule 150 surcharge of 3.879¢/therm for customers on tariff Schedules 101, 111, and 112 and a surcharge of 3.102¢/therm for interruptible customers on Schedules 131 and 132. The Company is directed to file conforming tariffs for an effective date of October 1, 2008.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. 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 September 2008.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM D. KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

bls/O:AVU-G-08-03_sw