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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment Deadline issued in Order No. 29554 on July 29, 2004, submits the following comments.

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 result 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%.

AVISTA FIRM NATURAL GAS TARIFF COMPONENTS

The Company's base rates, as described in Schedules 101 through 121, are subject to four adjustments that affect the actual rate customers pay. These four adjustments are described in Schedules 150 – Purchase Gas Cost Adjustment, Schedule 155 – Gas Rate Adjustment, 158 – Tax Adjustment, and 191 – Energy Efficiency Rider.

The underlying base rate for customers is the rate established in the most recent rate case and includes part of the cost of gas, overheads, operations, transportation costs and the allowed rate of return. Schedule 150 – Purchase Gas Cost Adjustment (also known as the Permanent Gas Cost Changes) is a forward-looking cost adjustment that reflects anticipated changes in the variable cost to purchase and transport gas. Schedule 155 – Gas Rate Adjustment (also known as the Temporary Adjustment), is a true up for over- and under-collected gas costs. Schedule 158 – Tax Adjustment adds the local franchise fee taxes to customer rates and is adjusted as the franchise fees are changed. Schedule 191 – Energy Efficiency Rider Adjustment, is used to fund authorized Demand Side Management programs. The sum of the base rate plus (or minus if a credit) Schedule 150, Schedule 155, Schedule 158 and Schedule 191, comprise the total rate the customers pay per therm each month. In this Application, Avista proposes to increase the Schedule 150 rate and leave the Schedule 155 rate in its current amount. No changes are being proposed for any other schedules.

The rates proposed by the Company, based on base rates currently in place, are shown below. The final base rates will be determined with the resolution of the pending general rate case, Case No. AVU-G-04-1.

Customer Class	Schedule	Proposed Schedule 150 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	0.00000	0.00%	0.10574

SCHEDULE 150 – PURCHASE GAS COST ADJUSTMENT

The purchase gas cost adjustment is a forward-looking cost adjustment that reflects the anticipated changes in the variable cost to purchase and transport natural gas for customers. Avista requests a Schedule 150 rate after rate case adjustments of $.11730/therm for rate Schedules 101, 111, 112, 121 and 122, and a rate of $.10750/therm for interruptible sales Schedules 131 and 132. The rate is based on an overall Weighted Average Cost of Gas (WACOG) of $0.55739/therm in rates. The request is a $0.1075 increase over the current $0.44989/therm WACOG in rates. The increase also includes higher fixed pipeline transportation charges of $0.0098/therm.

Staff understands the burden the Company's additional WACOG increase will have on customers when combined with a potential general rate increase. However, significant upward pressure remains on the price of natural gas. Some of the factors that we believe are causing the upward pressure include: a strong demand for electricity and natural gas, oil prices at or near record levels, improved access by new markets to northwest natural gas, and a new pipeline anticipated to begin delivery in 2005 from Wyoming to Kansas.

Not all market indicators are negative. Increased natural gas prices have spurred significant increases in natural gas exploration, drilling rig counts have continued to increase over the last 12 months, and approximately three dozen sites are proposed for new liquefied natural gas (LNG) import terminals. The first of the new LNG terminals is anticipated to come on line in late 2004 or 2005. Imports to the existing four LNG receiving terminals are also significantly higher than in years past.

Natural gas is a commodity subject to the market forces of supply and demand both in spot and futures markets. Natural gas prices over the past five years have been highly volatile and unpredictable. Failure to increase rates to reflect market prices would send an inappropriate price signal to customers. It may also cause significant deferred gas costs to be recovered through increases next year. Even with the increase proposed by the Company, gas cost deferrals could still occur. If the Company were to file based on August 13, 2004 forward prices, the WACOG would be about 2.5¢ higher than the proposed WACOG. Therefore, Staff recommends approving the Company's WACOG as requested. However, while the Company should recover prudently incurred costs, customers rates should be reduced whenever possible. Considering market volatility and the possibility for price softening, Staff recommends that the

Company be directed to file for an out-of-period rate decrease if the projected WACOG decreases 5% or more from the requested level.

SCHEDULE 155 – DEFERRED EXPENSES

Avista uses Schedule 155 to pass through any over- or under-collections of gas costs accrued since the last PGA case. In this Application, the Company requests recovery of approximately $3.5 million that has accrued through July 2004 using the Schedule 155 surcharge of $.03093 per therm. At this rate, Avista projects recovery of the deferred costs in approximately 18 months.

The $3.5 million consists of the following:

Deferred Account Item	**Amount Accrued Through June 2004**
Beginning Deferred Costs Balance	($977,407)
Wholesale Gas Costs More Than the WACOG	3,229,142
Cascade Natural Capacity Releases	(173,236)
Benchmark Deferrals	(1,659,895)
Off-System Capacity Releases/Sales	(211,693)
Interest on Deferrals	(750)
Administrative & General Benefit Credit (From Avista Energy)	(35,300)
Northwest Pipeline Meter Error	2,406,570
Refunds to Industrial Customers/Transfer to Amortization Accounts	926,421
Total Amount Owed by Customers	$3,503,852

Staff has reviewed the Application, performed an audit of the gas purchases from August 2003 through July 2004, and reviewed additional information supplied by the Company and third parties. In analyzing Avista's proposal, Staff believes there are two things that need to be addressed: the cost of hedges purchased for price stability and a Northwest Pipeline meter error.

Financial Hedges and Instruments

During the prior PGA period, the Company followed its price stabilization practice of systematically fixing portions of gas costs using financial instruments. These hedges provided substantial price protection and provided Idaho customers a benefit of $43,252 for the period.

Northwest Pipeline Meter Error

During a review of gas purchased from suppliers and sold to customers, Avista determined that the Lewiston area had a significant amount of unaccounted for gas. In other words, Avista sold more gas to customers than it had purchased. Upon further investigation, it was determined that one of the Northwest Pipeline[1] (Northwest) meters in the Lewiston area was set at a fixed-flow rate during September 2002 through February 2004. As a result, the deliveries to Lewiston from Northwest were significantly under-recorded and Avista owed the difference to Northwest. Northwest's tariff states that the gas must be replaced, and Avista was faced with purchasing significant amounts of gas from the current high-priced market. Because the gas is currently more expensive than during the time of the incorrectly set meter and the meter error was Northwest's fault, the Company was able to negotiate a settlement with Northwest to return less gas than was undercounted. Staff has attached an analysis of the settlement agreement as Confidential Attachment A. Staff has also attached the confidential settlement agreement between Avista and Northwest that details the amounts in question as Confidential Attachment B.

Because the allocation of pipeline and gas costs between Washington and Idaho is based on pipeline meter readings, the costs recorded during the meter error time period were incorrectly allocated. Staff has reviewed Avista's reallocation of costs between Idaho and Washington and believes it accurately represents actual conditions. Because the error occurred in Idaho, Idaho customers will be required to pay the majority of the costs associated with the meter error. The Company has appropriately reallocated some of the costs originally assigned to Washington back to the Idaho deferral account. The approximately $3.5 million will be paid back through a $2.4 million increase in the Idaho deferral account and a $1.1 million increase in future gas costs.

CONSUMER ISSUES

As of August 26, 2004, the Commission had received 5 comments from customers regarding the proposed 14.2% purchased gas cost adjustment. All opposed the increase.

[1] Northwest Pipeline is one of the major interstate pipeline systems that supply utilities and industrial customers in the northwest region with gas from a variety of suppliers. Its tariffs and operating procedures are regulated by the Federal Energy Regulatory Commission (FERC). Avista must agree to the tariffs to receive service from Northwest Pipeline.

Comments from the fixed-income customers stated it would be nearly impossible to pay higher rates for natural gas. As one customer stated, "I implore the Utilities Commission to reduce, if not deny outright, Avista's most recent request for rate increases." It is apparent from comments that consumers continue to have the perception that the Commission can "just say no" to requests for rate increases from utility companies.

Financial assistance is available to qualifying low-income customers through the Low Income Home Energy Assistance Program (LIHEAP). Additional financial assistance may be available through the Project Share program. Funds are also available through local Community Action Agencies to make homes more energy efficient. Customers can receive more information on assistance programs available to them by calling Avista's Customer Line at 1-800-227-9187. Telephone numbers for agencies that administer assistance are also available on the IPUC's Website at www.puc.state.id.us. To obtain the telephone numbers for the nearest agencies, customers should go to the IPUC Home Page, click on Consumer Information, then click on Energy Assistance by County.

STAFF RECOMMENDATIONS

Based on the above comments, Staff recommends that the Commission:

1. Approve the Company's request to leave Schedule 155 at $.03093 per therm to recover the deferred balance in approximately 18 months.
2. Approve the Company-requested WACOG of $0.55739 per therm.
3. Require the Company to file for an out-of-period rate decrease if the projected WACOG decreases 5% or more.

Respectively submitted this 26th day of August 2004.

Lisa D. Nordstrom

Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Michael Fuss
Alden Holm
Marilyn Parker

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ATTACHMENTS TO THESE COMMENTS ARE CONFIDENTIAL AND ONLY WENT TO THE AVISTA, COMMISSIONERS, AND STAFF

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26TH DAY OF AUGUST 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-04-2, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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CONFIDENTIAL ATTACHMENTS FILED