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September 13, 2012

State of Washington
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive
Olympia, Washington 98504-8002

Attention: Mr. David Danner, Executive Director and Secretary

RE: WN U-29 – Natural Gas Service
Avista's Annual Purchased Gas Adjustment (PGA)

Enclosed for filing with the Commission is a copy of the following proposed tariff sheets:

Fifteenth Revision Sheet 155 canceling Fourteenth Revision Sheet 155
Seventeenth Revision Sheet 156 canceling Sixteenth Revision Sheet 156

The Company requests that the proposed tariff sheets be made effective on November 1, 2012.

This filing reflects the Company's proposed annual Purchased Gas Cost Adjustment (PGA) to: 1) pass through changes in the estimated cost of natural gas for the forthcoming year (Schedule 156)[1], 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 this filing.

Service	Sch. No.	Commodity Change per therm	Demand Change per therm	Total Sch. 156 Change	Sch. 155 Amort. per therm	Total Rate Change per therm	**Total Percent Change**
General	101	($0.03030)	($0.00468)	($0.03498)	($0.00291)	($0.03789)	**(4.3%)**
Large General	111	($0.03030)	($0.00456)	($0.03486)	($0.00092)	($0.03578)	**(5.0%)**
Ex. Large General	121	($0.03030)	($0.00360)	($0.03390)	($0.00184)	($0.03574)	**(5.7%)**
Interruptible	131	($0.03030)	($0.00276)	($0.03306)	($0.01032)	($0.04338)	**(8.0%)**
Transportation	146	$0.00000	$0.00000	$0.00000	$0.00016	$0.00016	**0.2%**

Commodity Costs

As shown in the table above, the estimated commodity cost (WACOG) change is a *decrease* of 3.0 cents per therm. The proposed WACOG is 34.6 cents per therm compared to the present

[1] The Company typically files Schedule 150 for changes related to the estimated cost of natural gas. However, Schedule 150 is suspended in Avista's current general rate case (Dockets UE-120436 and UG-120437).

WACOG of 37.6 cents per therm included in rates. The Company's natural gas procurement plan uses a diversified approach to procure gas for the coming PGA year. While the plan generally incorporates a structured approach for the hedging portion of the portfolio, the Company exercises flexibility and discretion in all areas of the plan based on changes in the wholesale market. The Company typically meets with the Commission Staff at least semi-annually to discuss the state of the wholesale market and the status of the Company's procurement plan. In addition, the Company communicates with Staff when it believes it makes sense to deviate from its procurement plan and/or opportunities arise in the market.

Avista has been hedging gas on both a periodic basis throughout 2012 for the forthcoming PGA year. Approximately 63% of estimated annual load requirements for the PGA year (November 2012 through October 2013) will be hedged at a fixed price, comprised of: 1) 10% of volumes hedged for a term of one year or less, 2) 31% of volumes from prior multi-year hedges, and 3) 22% of volumes from underground storage. Through September 6, 2012, the hedged volumes for the PGA year have been executed at a weighted average price of $3.86 per dekatherm ($0.386 per therm).

The Company used a 30-day historical average of forward prices (ending September 6, 2012) by supply basin to develop an estimated cost associated with index/spot purchases. The estimated monthly volumes to be purchased by basin are multiplied by the 30-day average historical forward price for the corresponding month and basin. These index/spot volumes represent approximately 37% of estimated annual load requirements for the coming year and the annual weighted average price for these volumes is $2.94 per dekatherm ($0.294 per therm).

Available underground storage capacity at Jackson Prairie represents approximately 22% of annual load requirements (38% of load requirements during the December to March withdrawal period). The estimated weighted average cost for all storage volumes is $2.10 per dekatherm ($0.210 per therm).

Overall prices today are lower than what was experienced in 2011. In February 2012, Avista filed an out-of-cycle PGA with the Commission, decreasing Schedule 150 rates by 5.8 cents per therm (from 43.4 cents to 37.6 cents). Since that filing, which was approved by the Commission with an effective date of March 1, 2012, natural gas prices have stabilized, albeit at a lower level than this time last year. Cash prices experienced over the storage injection season (April – September) have also been lower than 2011. This decreased pricing level has caused the storage WACOG to be lower than what is currently included in rates. Forward prices for the upcoming PGA year, have also decreased which has provided Avista with the opportunity to hedge natural gas through the Company's procurement plan at a cost below what is embedded in rates.

Demand Costs

Demand costs shown in the table above primarily represent the cost of transporting natural gas to the Company's system. As shown in the table above, there is a slight decrease in proposed demand rates. Of particular note is the inclusion in the Company's filing of the effects of the recent Northwest Pipeline rate case which was approved by FERC. While that rate case caused an overall increase in demand costs for Avista, decreasing costs from the Canadian pipelines (Alberta and Spectra), and an increasing estimated pipeline capacity release credits more than offset the Northwest Pipeline increase.

Schedule 155 / Amortization Rate Change

As shown in the table above, the proposed change in the amortization rates are an increase in the current refund rate for residential customers of approximately $.00291 cents per therm. Currently the refund rate is $0.03031 per therm which the Company proposes to increase the refund rate to $0.03322 per therm. This increase in the refund rate is driven by the recent decline in the wholesale cost of natural gas which has resulted in a net refund deferral balance of approximately $5.6 million. If approved as filed, this balance would be refunded to customers over the next 12 months, assuming normal weather.

Jackson Prairie

In the Settlement Stipulation approved in Order No. 7 by the Commission in Dockets UE-100467 and UG-100468 (consolidated), at page 12, it states:

> The pro formed Jackson Prairie working gas inventory for the additional storage effective May 1, 2011, and associated additional operations and maintenance costs, were removed from the revenue requirement and rate base. The revenue requirement associated with Avista's rate of return applied to the actual balance of the additional JP working gas inventory applicable to Washington gas operations shall be calculated as a deferred cost beginning May 1, 2011 to be recovered in the Company's future PGA filings starting with Avista's fall 2011 PGA filing, until recovered in base rates in a subsequent general rate case. In addition, the additional operations and maintenance costs shall be recorded in the Company's PGA deferrals for later recovery in rates until those costs are included in base retail rates.

Consistent with this requirement, the Company has included the Washington portion of the revenue requirement associated with Avista's rate of return applied to the actual balance of the additional JP working gas inventory, as well as the additional operations and maintenance costs, from July 1, 2012 through December 31, 2012, in this PGA request[2]. Effective January 1, 2013, these costs associated with JP are included in base rates (Dockets UE-110876 and UG-110877)

Other Information

The annual revenue change reflected in this filing is a *decrease* of $6.5 million, or a *decrease* in annual gas revenue of 4.4%. The average residential or small commercial customer using 68 therms per month will see a decrease of $2.58 per month, or approximately 4.3%. The present bill for 68 therms is $60.76 while the proposed bill is $58.18.

Also enclosed are the workpapers supporting the proposed rate changes and a media release which will be issued coincident with this filing. The Company will also send a bill insert to customers regarding the proposed increase prior to November 1.

[2] The costs related to Jackson Prairie for May and June 2011 were included in the Company's 2011 PGA (UG-111665).

If you have any questions regarding this filing, please call Craig Bertholf at 509-495-4124 or Patrick Ehrbar at 509-495-8620.

Sincerely,

Kelly Norwood

Kelly O. Norwood
Vice President, State & Federal Regulation

enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Tariff WUTC WN-U-29 Natural Gas Service by mailing a copy thereof, postage prepaid to the following:

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Sent via the UTC Web Portal

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Mr. Simon ffitch
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Dated at Spokane, Washington this 13th day of September 2012.

Patrick Ehrbar
Manager, Rates & Tariffs