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August 31, 2016

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

Attention: Mr. Steven King, Executive Director and Secretary

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

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

**Seventeenth Revision Sheet 150 canceling Sixteenth Revision Sheet 150**  
**Nineteenth Revision Sheet 155 canceling Eighteenth Revision Sheet 155**

The Company requests that the proposed tariff sheets be made effective on November 1, 2016.

This filing is the Company’s annual Purchased Gas Cost Adjustment (“PGA”) 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 natural gas commodity and demand costs (Schedule 155). Below is a table summarizing the proposed changes reflected in this filing.

		Commodity	Demand	Total	Sch. 155	Total Rate	Total
	Sch.	Change	Change	Sch. 150	Amort.	Change	Percent
<u>Service</u>	<u>No.</u>	<u>per therm</u>	<u>per therm</u>	<u>Change</u>	<u>per therm</u>	<u>per therm</u>	<u>Change</u>
General	101	\$ (0.01196)	\$ 0.00587	\$ (0.00610)	\$ (0.06910)	\$ (0.07520)	-7.8%
Large General	111	\$ (0.01196)	\$ 0.00475	\$ (0.00721)	\$ (0.06148)	\$ (0.06869)	-9.5%
Ex. Large General	121	\$ (0.01196)	\$ 0.01225	\$ 0.00029	\$ (0.05203)	\$ (0.05174)	-8.7%
Ex Large General	122	\$ (0.01196)	\$ 0.01225	\$ 0.00029	\$ 0.00013	\$ 0.00042	0.1%
Interruptible	132	\$ (0.01196)	\$ 0.00349	\$ (0.00847)	\$ 0.00013	\$ (0.00834)	-1.7%
Transportation	146	\$ -	\$ -	\$ -	\$ 0.00002	\$ 0.00002	0.0%

## **Commodity Costs**

As shown in the table above, the estimated Weighted Average Cost of Gas (“WACOG”) change is a decrease of 1.2 cents per therm. The proposed WACOG, including the revenue conversion factor, is 25.0 cents per therm compared to the present WACOG of 26.2 cents per therm included in rates. The overall reduction in the WACOG is generally the result of the continued increase in natural gas supply coupled with an overall reduction in customer demand due to a warmer than normal winter of 2015-2016, resulting in lower wholesale natural gas prices. The downward pressure on wholesale prices has continued even after the winter period due to the abundance of natural gas in storage and continued high natural gas production levels.

The Company’s natural gas Procurement Plan (“Plan”) uses a diversified approach to procure natural gas for the coming PGA year. While the Plan generally incorporates a more 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 Commission Staff semi-annually to discuss the state of the wholesale market and the status of the Company’s Plan. In addition, the Company communicates with Commission Staff when it believes it makes sense to deviate from its Plan and/or opportunities arise in the market.

Avista has been hedging natural gas on both a periodic and discretionary basis throughout 2015-2016 for the forthcoming PGA year. Approximately 46% of estimated annual load requirements for the PGA year (November 2016 through October 2017) will be hedged at a fixed-price derived from the Company’s Plan. These volumes are comprised of: 1) volumes hedged for a term of one year or less, and 2) volumes from prior multi-year hedges. Through August 2016, the planned hedge volumes for the PGA year have been executed at a weighted average price of \$2.61 per dekatherm (\$0.261 per therm).

The Company used a 30-day historical average of forward prices and supply basins (ending July 15, 2016) to develop an estimated cost associated with index purchases. The estimated monthly volumes to be purchased by basin are multiplied by the 30-day average forward price for the corresponding month and basin. These index purchases represent approximately 54% of estimated annual load requirements for the coming year. The annual weighted average price for these volumes is \$2.45 per dekatherm (\$0.245 per therm).

## **Demand Costs**

Demand costs primarily represent the cost of transporting natural gas on interstate pipelines to the Company’s local distribution system. As shown in the table above, there is a slight increase in the overall demand rate for most rate schedules which is, in part, related to the reduction in Northwest Pipeline capacity release revenue Avista had been receiving.

## **Schedule 155 / Amortization Rate Change**

As shown in the table above, the proposed amortization rate change for Schedule 101 in particular is a decrease of \$0.0691 per therm. The current rate applicable to Schedule 101 is \$0.02706 per therm in the rebate direction; the proposed rate is \$0.09616 per therm is also in the

rebate direction. The reason for the increase in the Schedule 155 amortization rebate rate is due to wholesale natural gas prices that were lower than the level approved in the Company's 2015 PGA. The overall reduction in the WACOG is generally the result of the continued increase in natural gas supply coupled with an overall reduction in customer demand due to a warmer than normal winter of 2015-2016, resulting in lower wholesale natural gas prices. The downward pressure on wholesale prices has continued even after the winter period due to the abundance of natural gas in storage and continued high natural gas production levels. As a result of the lower prices, the amount of revenue collected from customers exceeded the Company's costs.

### Summary

The annual revenue change reflected in this filing is a *decrease* of \$12.8 million, or a *decrease* in annual natural gas revenue of 8.0%. The average residential or small commercial customer using 66 therms per month will see a decrease of \$4.96 per month, or approximately 8.0%. The present bill for 66 therms is \$61.85 while the proposed bill is \$56.89.

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.

If you have any questions regarding this filing, please call Ryan Finesilver at 509-495-4873 or Patrick Ehrbar at 509-495-8620.

Sincerely,



David J. Meyer  
Vice President and Chief Counsel for  
Regulatory and Governmental Affairs



**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:

Chad M. Stokes  
Cable Huston Benedict Haagensen & Lloyd, LLP  
1001 SW 5th, Suite 2000  
Portland, OR 97204-1136

Mr. Edward A Finklea  
Northwest Industrial Gas Users  
545 Grandview Drive  
Ashland, OR 97520

Washington Utilities & Transportation Commission  
Steven King, Executive Director and Secretary  
1300 Evergreen Park Dr. SW  
Olympia, WA 98504  
Sent via the UTC Web Portal

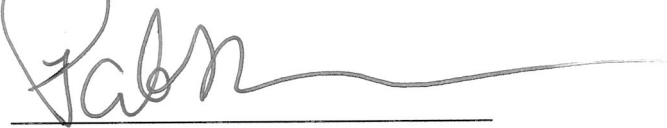
Office of the Attorney General  
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Spokane County  
Ron Oscarson, Director of Facilities  
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Washington Department of Corrections  
PO Box 1899  
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Dated at Spokane, Washington this 31<sup>st</sup> day of August 2016.



Patrick Ehrbar  
Senior Manager, Rates & Tariffs