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August 17, 2018

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

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:

Twenty-First Revision Sheet 150 canceling **Twentieth Revision Sheet 150**
Twenty-First Revision Sheet 155 canceling **Twentieth Revision Sheet 155**
Fifth Revision Sheet 149 canceling **Fourth Revision Sheet 149**

The Company's proposed tariff sheets have an effective date of November 1, 2018. 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 rate changes reflected in this filing.[1]

Service Schedule	Sch. No.	Commodity Change per therm	Demand Change per therm	Total Sch. 150 Change	Sch. 155 Amort. per therm	Total Rate Change per therm	**Total Percent Change**
General	101	$ 0.00676	$ (0.00521)	$ 0.00155	$ (0.00111)	$ 0.00044	**0.1%**
Fixed income	102	$ 0.00676	$ (0.00521)	$ 0.00155	$ (0.00111)	$ 0.00044	**0.2%**
Large General	111	$ 0.00676	$ (0.00650)	$ 0.00026	$ (0.00163)	$ (0.00137)	**-0.5%**
Large General	112	$ 0.00676	$ (0.00650)	$ 0.00026	$ -	$ 0.00026	**0.1%**
Ex. Large General	121	$ 0.00676	$ (0.01259)	$ (0.00583)	$ (0.00041)	$ (0.00624)	**-2.1%**
Ex Large General	122	$ 0.00676	$ (0.01259)	$ (0.00583)	$ -	$ (0.00583)	**-1.9%**
Interruptible	131	$ 0.00676	$ (0.00307)	$ 0.00369	$ -	$ 0.00369	**0.7%**
Interruptible	132	$ 0.00676	$ (0.00307)	$ 0.00369	$ -	$ 0.00369	**0.9%**

[1] Customers on Rate Schedule 112, 122, and 132 will receive a lump bill credit, in lieu of an amortization rate, for their portion of the amortization balance. The impact of these lump sums are excluded from this table.

Commodity Costs

As shown in the table above, the estimated Weighted Average Cost of Gas ("WACOG") change is a slight increase of 0.00676 cents per therm. In December 2017 Avista filed an out-of-cycle PGA, reducing the Commodity WACOG from $0.22868 per therm to $0.17227 per therm (7.1%). The drivers of that filing were continued low natural gas prices due to high natural gas production levels and an abundance of nature gas in storage. Since that time, prices have continued to stay within the range estimated in that filing, resulting in only a slight increase in Commodity rate of $0.00676 per therm for the upcoming PGA year.

Avista has been hedging natural gas on a periodic basis throughout 2017-2018 for the forthcoming PGA year. Approximately 32% of estimated annual load requirements for the PGA year (November 2018 through October 2019) are 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 July 2018, the hedge volumes for the PGA year have been executed at a weighted average price of $2.52 per dekatherm ($0.252 per therm). Ultimately, approximately 46% of the estimated load requirements for the PGA year will be hedged with fixed priced natural gas purchases. These additional hedges will be executed throughout the PGA year according to the guidelines within the Company's Natural Gas Procurement Plan.

The Company used a 30-day historical average of forward prices and supply basins (ending July 31, 2018) 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 68% of estimated annual load requirements for the coming year. The annual weighted average price for these volumes is $1.51 per dekatherm ($0.151 per therm).

Demand Costs

Demand costs reflect the cost of pipeline transportation to the Company's system, as well as fixed costs associated with natural gas storage. As shown in the table above, demand costs are expected to decrease for residential customers by approximately $0.00521 per therm. This reduction is primarily due to the pricing of Canadian pipeline costs in U.S. dollars rather than Canadian dollars.[2]

Schedule 155 / Amortization Rate Change

As noted in the Commodity section above, Commodity costs have remained fairly close with what was forecasted in the Company's out-of-cycle PGA filed in December 2017. However, by utilizing transportation contracts not needed to serve load, the Company was able to capture price variability between natural gas supply basins in the daily market which further reduced overall commodity costs for the benefit of our customers. This was the primary contributor to the increase in the amortization commodity rebate from $0.09504 to $0.09620 for a change of $0.0111.

[2] In previous years, due to the U.S and Canadian currency being close to par, the Company kept certain Canadian contracts in Canadian dollars in PGA filings.

Schedule 149 / Backup and Supplemental Compressed Natural Gas Service

The Company has also included Schedule 149, "Backup and Supplemental Compressed Natural Gas Service" to reflect the new first block billing rate for Schedule 111. That rate is one of the key components to determine the Retail Rate per Gas Gallon Equivalent under that schedule. Several of the adder schedule rates incorporated in the billing rate for Schedule 111 are pending approval at this time (Schedule 150 – Purchased Gas Cost Adjustment, Schedule 155 – Gas Rate Adjustment, and Schedule 191 – Demand Side Management, Schedule 192 – LIRAP). Should the Commission approve a rate that is different from what the Company has proposed to go into effect on November 1st for any of these adder schedules, the Company with file a substitute Schedule 149 tariff to reflect the approved billing rate for Schedule 111.

Other

Guidance provided in Docket No. UG-132019's "Policy and Interpretive Statement on Local Distribution Companies' Natural Gas Hedging Practices" ("Policy Statement") requires that Companies' file, coincident with the 2018 PGA filing, an annual comprehensive hedging plan that demonstrates the integration of risk responsive strategies into the Companies' overall hedging framework. That report will be filed, under a separate docket, on or before August 31, 2018.[3]

Summary

The annual revenue change reflected in this filing is a *decrease* of $108,617, or a *decrease* in annual natural gas revenue of 0.1%. The average residential or small commercial customer using 65 therms per month will see an increase of $0.03 per month, or approximately 0.06%. The present bill for 65 therms is $50.66 while the proposed bill is $50.69. The proposed rate change will vary based on a customer's usage and service schedule.

Also enclosed are the workpapers supporting the proposed rate changes, a media release which will be issued coincident with this filing, and a bill insert to customers regarding the proposed increase.

If you have any questions regarding this filing, please call Annette Brandon at 509-495-4873.

Sincerely,

Patrick D. Ehrbar
Director of Regulatory Affairs

[3] The Company is filing this PGA earlier than it normally would have (August 31, 2018) in order to give Commission Staff adequate time for review, as well as give customers adequate notice of the filed rate request.

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