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August 22, 2019

Mark L. Johnson
Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, Washington 98503

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-Second Revision Sheet 150 canceling **Substitute Twenty-First Revision Sheet 150**
Twenty-Second Revision Sheet 155 canceling **Substitute Twenty-First Revision Sheet 155**
Sixth Revision Sheet 149 canceling **Substitute Fifth Revision Sheet 149**

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 revenue changes reflected in this filing.

	Total Revenue Change			% Change Calculation	
	Rate Schedule 150	Rate Schedule 155	Total	Total GRC Billed Revenue*	% Change
Rate Schedule 101/102	$ (3,293,547)	$ 13,298,673	$ 10,005,126	$ 98,537,757	10.2%
Rate Schedule 111/112	$ (1,411,173)	$ 5,330,329	$ 3,919,156	$ 29,915,788	13.1%
Rate Schedule 121/122	$ (48,932)	$ 132,330	$ 83,398	$ 800,027	10.4%
Rate Schedule 131/132	$ (21,406)	$ 40,604	$ 19,198	$ 464,206	4.1%
Rate Schedule 146	$ -	$ -	$ -	$ 3,222,768	0.0%
Rate Schedule 148	$ -	$ -	$ -	$ 1,401,909	0.0%
Total	$ (4,775,058)	$ 18,801,936	$ 14,026,878	$ 134,342,455	10.4%

The Company's proposed tariff sheets have an effective date of November 1, 2019. Confidential Attachment E contains pricing that is confidential. Therefore per WAC 480-07-160, this attachment is being provided in a confidential and redacted version.

Commodity Costs

The estimated Weighted Average Cost of Gas ("WACOG") change is a decrease of $0.01870 per therm. The proposed WACOG $0.16029 per therm compared to the present WACOG of $0.17899 per therm included in rates. The overall reduction in the WACOG is generally the result of the continued high natural gas production levels and an abundance of natural gas in storage.

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 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 the previous 36 months for the forthcoming PGA year. Approximately 43% of estimated annual load requirements for the PGA year (November 2019 through October 2020) will be hedged at a fixed-price derived from the Company's Plan. Through July, the hedge volumes for the PGA year have been executed at a weighted average price of $1.72 per dekatherm ($0.172 per therm).

The Company used a 30-day historical average of forward prices and supply basins (ending July 31, 2019) 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 57% of estimated annual load requirements for the coming year. The annual weighted average price for these volumes is $1.60 per dekatherm ($0.160 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. Demand costs are expected to slightly decrease for residential customers by approximately $0.00617 per therm. This reduction is related to a reduction of various factors including Canadian exchange rate, updated demand forecast, and changes due to federal tax reform for Gas Transmission Northwest (GTN), etc.

Schedule 155 / Amortization Rate Change

The proposed amortization rate change for Schedule 101 and Schedule 102 is an increase in revenue (or reduction in current rebate) of $0.10042 per therm. The current rate applicable to Schedule 101 and Schedule 102 is \$0.09613 per therm in the rebate direction; the proposed rate is \$0.00429 per therm in the surcharge direction.

For the previous PGA year, the Company was able to secure commodity expense at much lower than what was embedded in customer rates, which resulted in a total rebate balance of \$15.9 million or \$0.09613 per therm.

For the 2018-2019 PGA year, conditions were not as favorable, which resulted in a surcharge deferral balance of approximately \$4.1 million. A combination of various factors contributed to higher actual wholesale natural gas prices versus the previous year. Regionally, actual wholesale natural gas prices exhibited extreme volatility and higher prices after the Enbridge-owned West Coast Pipeline ("Enbridge") experienced a rupture in October 2018. The pipeline has since been repaired, but has been operating at reduced capacity especially throughout the 2018-2019 winter. The capacity shortage on Enbridge severely affected the natural gas supply in the Pacific Northwest during the winter months, driving prices and volatility higher. This relatively mild winter regionally turned very cold in February 2019. The arrival of cold weather, coupled with the loss of one of the compressors at the Jackson Prairie storage facility for a three-week period, further exacerbated the capacity shortage, increasing regional spot natural gas prices, including record high prices at the Sumas natural gas trading hub.

In this year's filing, the Company has included a projection of deferral and amortization balances from July 2019 through October 2019. The volatility experienced in the previous winter was unusual and has not, nor is expected to, continue throughout the rest of the PGA year. Therefore, in order to provide customers the benefit from these lower prices in a timely manner, we have included an estimate of commodity and demand deferrals of approximately \$5.3 million which we estimate will occur from July 2019 through October 2019, prior to the next natural gas PGA year. This estimate is based on an average of the previous three years of commodity and demand deferrals. In total, the combination of the Deferral balance as of June 30, 2019 plus the projected amortization and deferrals for July 2019 through October 2019 results in a net deferral balance of \$1.2 million, or \$0.00429 per therm.

The expiration of the present rebate rate of \$0.09613 per therm, and inclusion of the proposed surcharge rate of \$0.00429 per therm, leads to an increase in the Schedule 155 amortization rate of \$0.10042 per therm for Schedule 101 and Schedule 102 customers. Similar Schedule 155 rate changes, as shown in Confidential Attachment E, are applicable for the Company's other service schedules.

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 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 Information

Guidance provided in Docket No. UG-132019's "Policy and Interpretive Statement on Local Distribution Companies' Natural Gas Hedging Practices" ("Policy Statement") requires that Avista shall file, by the deadline for submitting the 2019 PGA filing, an annual comprehensive hedging plan that demonstrates the integration of risk responsive strategies into the Company's overall hedging framework. That report will be filed, under a separate docket, on or before September 7, 2019.[1]

Summary

The annual revenue change reflected in this filing is an *increase* of $14,026,878, or an *increase* in annual natural gas revenue of 10.4%. The average residential or small commercial customer using 66 therms per month will see an increase of $4.99 per month, or approximately 10.4%. The present bill for 66 therms is $47.79 while the proposed bill is $52.78. 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 Kaylene Schultz at 509-495-2482 Annette Brandon at 509-495-4324.

Sincerely,

Patrick D. Ehrbar
Director of Regulatory Affairs

[1] The Company is filing this PGA earlier than it normally would have (August 31, 2019) 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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