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AVISTA Corp.

September 12, 2014

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
<u>Avista's Annual Purchased Gas Cost Adjustment (PGA)</u>

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

Fifteenth Revision Sheet 150 canceling **Fourteenth Revision Sheet 150**
Seventeenth Revision Sheet 155 canceling **Sixteenth Revision Sheet 155**

The Company requests that the proposed tariff sheets be made effective on November 1, 2014.

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.

Service	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	$0.02326	$0.00559	$0.02885	($0.01878)	$0.01007	**1.0%**
Large General	111	$0.02326	$0.00594	$0.02920	($0.01495)	$0.01425	**1.8%**
Ex. Large General	121	$0.02326	$0.00770	$0.03096	($0.00638)	$0.02458	**3.5%**
Ex Large General	122	$0.02326	$0.00770	$0.03096	($0.00067)	$0.03029	**4.3%**
Interruptible	132	$0.02326	$0.00346	$0.02672	($0.00067)	$0.02605	**4.2%**
Transportation	146	$0.00000	$0.00000	$0.00000	($0.00008)	($0.00008	**(0.1%)**

Commodity Costs

As shown in the table above, the estimated Weighted Average Cost of Gas ("WACOG") change is an increase of 2.3 cents per therm. The proposed WACOG, including the revenue conversion factor, is 40.3 cents per therm compared to the present WACOG of 38.0 cents per therm included in rates.

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 2014 for the forthcoming PGA year. Approximately 35% of estimated annual load requirements for the PGA year (November 2014 through October 2015) will be hedged at a fixed-price derived from the Company's Plan. These volumes are comprised of: 1) 13% of volumes hedged for a term of one year or less, and 2) 22% of volumes from prior multi-year hedges. Through August 2014, the planned hedge volumes for the PGA year have been executed at a weighted average price of $4.26 per dekatherm ($0.426 per therm).

Available underground storage capacity at the Jackson Prairie Natural Gas Storage Facility represents approximately 21% of annual load requirements (36% of load requirements during the December to March withdrawal period). The estimated WACOG for all storage volumes is $4.15 per dekatherm. The Company utilizes its underground storage to capture seasonal price spreads (differentials), improve the reliability of supply, increase operational flexibility and mitigate peak demand price.

The Company used a 30-day historical average of forward prices and supply basins (ending August 18, 2014) 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 44% of estimated annual load requirements for the coming year. The annual weighted average price for these volumes is $3.61 per dekatherm.

The winter of 2013-2014 was significantly colder than normal both in the western United States and nationally. The colder than normal weather led to an increase in overall natural gas demand and a heavy reliance on natural gas storage reserves. Natural gas storage both nationally and in the west were drawn down well below their five year average balance. The cold weather and increased demand increased wholesale natural gas prices both in the winter as well as in the summer as more natural gas is required to replenish storage facilities. Storage may not be full by the coming winter, and this storage imbalance may persist through the coming winter. While prices are currently forecast to remain higher throughout the upcoming winter, natural gas prices in future winter periods are below the upcoming winter. As a result, the market prices indicate that the storage imbalance issue is temporary, and the long-term trend of lower priced gas should return.

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. The two factors primarily contributing to the increase in demand costs are an expiration of short-term capacity release credits on Northwest Pipeline and an increase in summer capacity on TCPL-Alberta Pipeline. TCPL-Alberta no longer offers seasonal-only capacity. As a result, only fixed price annual contracts are now available.

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 $0.01878 per therm. The current rate applicable to Schedule 101 is $0.00348 per therm in the surcharge direction; the proposed rate is ($0.01530) per therm in the rebate direction[1]. The reason for the decrease in the Schedule 155 amortization rate is due to changes in the demand portion of the amortization rate, which include:

1. Colder than normal weather resulted in higher demand cost collections during the winter months;

2. Effective April 1, 2014, Avista entered into a new Deferred Exchange contract with a counterparty whereby the Company receives natural gas at a specific point during one time period (summer) and re-delivers that natural gas in a different time period (winter). The Company charges a fixed per therm charge for this service. The net benefit provided to customers from this new agreement in this PGA is approximately $1,125,000; and

3. As noted in the Company's annual electric Energy Recovery Mechanism filing (Docket UE-140540), the Company discovered an error related to the allocation of natural gas transport costs between the Company's power supply operations and the Company's natural gas distribution operations. Details were provided in the December 2013 ERM Deferral Report filed with the Commission on January 16, 2014. The net effect of this error is a decrease (i.e., a benefit to natural gas customers) in the natural gas amortization deferral account of $1,156,794.

Other Information

The annual revenue change reflected in this filing is an *increase* of $1.9 million, or an *increase* in annual gas revenue of 1.2%. The average residential or small commercial customer using 65 therms per month will see an increase of $0.65 per month, or approximately 1.1%. The present bill for 65 therms is $61.19 while the proposed bill is $61.84.

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[1] The slight rate decrease for Schedule 146 transportation customers, who typically are not included in the Company's annual PGA filings as they procure their own natural gas commodity and interstate pipeline transportation, is related to prior period rate recovery of deferred costs related to Jackson Prairie (see Docket UG-121501).

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 Annette Brandon at 509-495-4324 or Patrick Ehrbar at 509-495-8620.

Sincerely,

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

Enclosures

VERIFICATION

STATE OF WASHINGTON)
:ss
County of Spokane)

I, David J. Meyer, being first duly sworn on oath, deposes and says: That he is the Vice President and Chief Counsel of Regulatory and Governmental Affairs of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing filing, knows the contents thereof, and believes the same to be true.

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SIGNED AND SWORN to before me this 12th day of September 2014, by David J. Meyer.

Patty L. Hanson
NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 11/23/2017

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

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

Mr. Edward A Finklea
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Spokane County
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Mr. Simon ffitch
Office of the Attorney General
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Dated at Spokane, Washington this 12th day of September 2014.

Patrick Ehrbar
Manager, Rates & Tariffs