

Commodity Costs

As shown in the table above, the estimated Weighted Average Cost of Gas (“WACOG”) change is a decrease of 2.1 cents per therm. The proposed WACOG, including the revenue conversion factor, is 22.9 cents per therm compared to the present WACOG of 25.0 cents 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 nature gas in storage, which have driven wholesale natural gas prices lower.

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 2016-2017 for the forthcoming PGA year. Approximately 32% of estimated annual load requirements for the PGA year (November 2017 through October 2018) 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 August 2017, the planned hedge volumes for the PGA year have been executed at a weighted average price of \$2.63 per dekatherm (\$0.263 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 Plan.

The Company used a 30-day historical average of forward prices and supply basins (ending July 31, 2017) 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 \$2.15 per dekatherm (\$0.215 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 \$0.02028 per therm. This reduction is primarily due to new transportation rates for Williams Northwest Pipeline effective both on January 1, 2018 and October 1, 2018.¹

¹ The Williams Northwest Pipeline Settlement agreement is pending approval before the Federal Energy Regulatory Commission (FERC).

Schedule 155 / Amortization Rate Change

As shown in the table above, there are only slight changes in the amortization rates, resulting in an increase of approximately \$133,000. This change is due, in part, to less variability in the embedded WACOG vs. the actual WACOG for the current PGA year (2016-207) vs the previous PGA year (2015-2016).

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 the 2017 PGA filing include a preliminary hedging plan. Per the Policy Statement, the plan should include information regarding objectives and goals, exposure quantification, strategic initiatives, and oversight and control of the Company's Procurement Plan in regards to incorporating risk-responsive hedging. The Company has included its plan as Attachment F.

Summary

The annual revenue change reflected in this filing is a *decrease* of \$7.8 million, or a *decrease* in annual natural gas revenue of 5.2%. The average residential or small commercial customer using 65 therms per month will see a decrease of \$2.78 per month, or approximately 4.9%. The present bill for 66 therms is \$57.33 while the proposed bill is \$54.55.

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 or myself at 509-495-8620.

Sincerely,



Patrick D. Ehrbar
Senior Manager, Rates and Tariffs
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
Public Counsel Section
800 Fight Avenue, Suite 2000
Seattle, WA 98164

Spokane County
Ron Oscarson, Director of Facilities
1211 W. Gardner Avenue
Spokane, WA 99260-0060

St. Lukes
Attn: Accounts Payable
PO Box 469
Spokane, WA 99210

Washington Department of Corrections
PO Box 1899
Airway Heights, WA 99001

Dated at Spokane, Washington this 31st day of August 2017.



Patrick Ehrbar
Senior Manager, Rates & Tariffs