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September 2, 2022

Ms. Amanda Maxwell
Executive Director and Secretary
Washington Utilities and 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-Sixth Revision Sheet 150 canceling **Twenty-Fifth Revision Sheet 150**
Twenty-Fifth Revision Sheet 155 canceling **Twenty-Fourth Revision Sheet 155**
Tenth Revision Sheet 149 canceling **Ninth 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). The Company is requesting an overall revenue increase of $25.0 million, or 12.3 percent, effective November 1, 2022. Below is a table summarizing the proposed rate changes reflected in this filing.

Service Schedule	Sch. No.	Commodity Change per therm	Demand Change per therm	Total Sch. 150 Change	Sch. 155 Amort. per therm	Total PGA Rate Change per therm
General	101	$ 0.01996	$ 0.00767	$ 0.02763	$ 0.10565	$ 0.13328
Fixed income	102	$ 0.01996	$ 0.00767	$ 0.02763	$ 0.10565	$ 0.13328
Large General	111	$ 0.01996	$ 0.00534	$ 0.02530	$ 0.08770	$ 0.11300
Large General	112	$ 0.01996	$ 0.00534	$ 0.02530	$ -	$ 0.02530
Interruptible	131	$ 0.01996	$ 0.00534	$ 0.02530	$ -	$ 0.02530
Interruptible	132	$ 0.01996	$ 0.00534	$ 0.02530	$ -	$ 0.02530

Commodity Costs

The estimated Weighted Average Cost of Gas (“WACOG”) change is an increase of $0.01996 per therm. The proposed WACOG $0.36990 per therm compared to the present WACOG of $0.34994 per therm included in rates.[1] The natural gas market in the US has seen extraordinary price volatility this past year in both the spot and forward markets and has at times reached levels not seen in over a decade. The Henry Hub spot price settled above $9 on several days during late May and early June of 2022, which is a level the market has not seen since 2008. Regional hubs in the Pacific Northwest have also seen similar volatility and high prices throughout the year, resulting in wholesale and forward natural gas prices substantially above the level presently included in rates.

The market factors attributing to the rise in prices is an overall increase in demand and lower supply. Demand has remained strong mainly due to LNG exports which have been running at or near capacity through the winter and spring. Additionally, there has been a lack of fuel switching that is normally expected when natural gas prices are elevated to the level they are currently at. When natural gas prices reach high levels there is typically some volume of demand destruction that occurs as consumers utilize their ability to switch to cheaper fuels where possible. However, that has not happened in the current environment as the two main alternative fuels, coal and oil, are also priced at extremely high levels limiting the incentive to switch away from natural gas. An additional factor is the retirement of coal fired generating plants over the past few years has significantly reduced the overall capacity available for fuel switching away from gas.

On the supply side, US production has underperformed expectations since the start of 2022 putting pressure on wholesale prices. The increased demand and lack of supply have led to storage levels well below the 5-year average putting upward pressure on both cash and forward prices for the remainder of 2022. Also, although the US natural gas market is not directly connected to the European market except through LNG exports, which are already operating at capacity as mentioned above, there is likely a risk premium being priced into the US market based on the expectations that world energy prices will remain elevated due to the War in Ukraine.

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 communicates with Commission Staff semi-annually to inform as to 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 41% of estimated annual load requirements for the PGA year (November 2022 through October 2023) has been hedged at a fixed-price derived

[1] The Commission approved an out of cycle PGA effective July 1, 2022 which increased the WACOG from $0.23350 per therm to $0.36990 per therm.

from the Company's Plan. Through June, the hedge volumes for the PGA year have been executed at a weighted average price of $2.93 per dekatherm ($0.293 per therm).

The Company used AECO forward prices as of July 18, 2022 to develop an estimated cost associated with index purchases. These index purchases represent approximately 59% of estimated annual load requirements for the coming year. The annual weighted average price for these volumes is $4.16 per dekatherm ($0.416 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 increase for residential customers by approximately $0.0077 per therm. This change is related to a combination of various factors including Canadian exchange rate, updated demand forecast, and pipeline tariff changes for our Canadian pipelines.

Schedule 155 / Amortization Rate Change

The proposed amortization rate change for Schedule 101 and Schedule 102 is an increase of $0.10565 per therm. The current rate applicable to Schedule 101 and Schedule 102 is $0.02099 per therm in the surcharge direction; the proposed rate is $0.12664 per therm in the surcharge direction.

Related to the Commodity portion of the amortization, prices increased steadily during the PGA year before increasing substantially in April 2022 resulting in the Company's out-of-cycle PGA filing for updated commodity WACOG in Schedule 150 approved by the Commission and effective 7/1/2022. Demand costs are impacted by a variety of factors including the Canadian exchange rate, demand volumes, and changes in pipeline rates. Higher prices, reflective of a combination of these of factors, has resulted in a surcharge balance of approximately $23.2 million as of June 30, 2022. The company included estimated amortization through October 2022 decreasing the balance for amortization by $0.6 million to $22.6 million.

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, Schedule 175 – Decoupling, Schedule 191 – DSM and Schedule 192 – LIRAP). Should the Commission approve a rate that is different from what the Company has proposed to go into effect 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 2022 PGA filing, an annual comprehensive hedging plan that demonstrates the integration of risk responsive strategies into the Company's overall hedging framework. That report is being filed as an attachment with this filing.

Summary

The annual revenue change reflected in this filing is an *increase* of $25.0 million in annual natural gas revenue, or 12.3%. The average residential or small commercial customer using 67 therms per month will see an increase of $8.93 per month, or approximately 12.3%. The present bill for 67 therms is $72.66 while the proposed bill is $81.59. 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 and a bill insert to customers regarding the proposed increase. Please note that Attachment E and Attachment H are Confidential as they contain individual counterparty name and pricing information that is confidential. Therefore, per WAC 480-07-160, Attachment E is being provided in a confidential and redacted version. The entire content of Attachment H is confidential in nature, therefore, only a confidential version is being provided. Also, Attachment H is being provided in excel format only given the detailed and electronic nature of the information provided.

If you have any questions regarding this filing, please call Marcus Garbarino at 509-495-2567.

Sincerely,

/S/Patrick D. Ehrbar

Patrick D. Ehrbar
Director of Regulatory Affairs