

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION
COMMISSION

In re the Matter of)	
)	
WASHINGTON UTILITIES AND)	DOCKET NO. UG-021584
TRANSPORTATION COMMISSION)	
)	
)	
Complainant,)	
)	
v.)	
)	
AVISTA CORPORATION d/b/a)	SETTLEMENT STIPULATION
AVISTA UTILITIES)	
)	
Respondent.)	
)	
.....)	

1 This Settlement Stipulation is entered into this 23rd day of September 2003, by and between
all parties to the above docket: Avista Corp. ("Company"), the Staff of the Washington Utilities and
Transportation Commission, and the Public Counsel Section of the Attorney General's Office
(jointly referred to as the "Parties" and individually referred to as a "Party").

2 The Parties agree this Settlement Stipulation is in the public interest and resolves all issues
that are necessary to resolve in this docket. The Parties understand this Settlement Stipulation is
subject to Commission approval.

I. Introduction

3 On December 2, 2002, the Company filed tariff revisions with the Commission extending the
Company's "Benchmark Mechanism" for two additional years, with some modifications. That filing

was assigned Docket No. UG-021584. By its order dated January 29, 2003, the Commission suspended those tariff revisions, and permitted the Company's existing Benchmark Mechanism tariff to remain in effect until January 29, 2004, pending the Commission's decision in this docket. The matter was set for hearing.

4 In general terms, through the Benchmark Mechanism, Avista Energy serves as agent for Avista Utilities to acquire natural gas and manage gas storage and transportation assets for Avista Utilities' retail customers. The structure of the Mechanism, which is set forth in tariff Schedule 163 (Exhibit 152), describes the Company's gas procurement strategy, and includes a sharing of costs and benefits between Avista Utilities' Customers and Avista Energy on the various components of the Mechanism. A graphic description of the form of the Benchmark Mechanism proposed by the Company in its direct testimony in this docket, as its preferred form, is contained in Exhibit No. 2 in this docket, a copy of which is attached to this Settlement Stipulation.

II. Settlement Stipulation

A. Continuation of the Benchmark Mechanism until March 31, 2005:

5 The Parties agree that the Benchmark Mechanism may continue in the form proposed by the Company in this docket (which is set forth in tariff terms in the Company's Exhibit No. 152) with the changes described in Paragraph II.A.1 and 2, and subject to the conditions stated in Paragraph II.B, below. The changes are:

1. Expiration date:

6 Exhibit No. 152 has an expiration date of March 31, 2007 (Exhibit No. 152, page 1, "Term"). The Parties agree and stipulate that the expiration date will be changed to March 31, 2005, which is the same expiration date contained in similar Company tariffs in Idaho and Oregon.

2. Sharing of Off-System Sales Revenues, Capacity Release Revenues, and Basin Optimization Benefits:

7 Exhibit No. 152 contains a guaranteed minimum level of total off-system sales and capacity release revenues of \$3 million, with sharing above that \$3 million at a level of 80% to Avista Utilities' Customers and 20% to Avista Energy. (Exhibit No. 152, page 11, Paragraph 4(a)). Basin optimization benefits are shared 80% to Avista Utilities' Customers and 20% to Avista Energy, but have no guaranteed minimum level of such benefits. (Exhibit No. 152, page 10, last Paragraph).

8 The Parties agree and stipulate that the guaranteed levels and sharing just described will be changed such that Avista Utilities' Customers will be guaranteed a minimum level of \$5 million in total revenues from basin optimization benefits, off-system sales and capacity release revenues, that the next \$1 million (\$5,000,001 to \$6,000,000) of such revenues will go 100% to Avista Utilities' Customers, and any such revenues above the \$6 million level will be shared at a level of 80% to Avista Utilities' Customers and 20% to Avista Energy. These dollar figures are for every twelve-month period starting on the effective date of the new tariff, and proportionally to March 31, 2005, should the tariff expire then. The effective date of the new tariff shall be December 1, 2003.

9 The Company will make such changes to Exhibit No. 152 as are necessary to make the changes agreed and stipulated above. The Company will file the new tariff in this docket, and the parties agree that the new tariff can go into effect by operation of law, on less than statutory notice on December 1, 2003. Each Party reserves the right to argue that the revised tariff does not accurately reflect this Settlement Stipulation, but the Parties agree to work together to resolve that issue if possible, before seeking Commission action.

B. Future of the Benchmark Mechanism:

10 During the period of time from December 1, 2003, to March 31, 2005, the Parties agree to engage in good faith discussions regarding gas purchase incentive mechanisms, with the goal of developing a mechanism that reflects the consensus of the Parties. If such a consensus mechanism is developed and filed with the Commission, the Parties agree to take appropriate actions in support of that mechanism. If such a consensus mechanism is not developed by March 31, 2005, the gas procurement function will revert to the Company from Avista Energy at that time, and the Company agrees that it would not file a gas purchase incentive mechanism involving an affiliated interest (as that term is used in RCW 80.16) or a non-affiliate subsidiary until after March 31, 2007. Nothing in this Settlement Stipulation prevents the Company from filing a gas purchase incentive mechanism that does not involve an affiliated interest or a non-affiliated interest subsidiary.

III. Effect of the Settlement Stipulation and Procedure

A. Binding on Parties:

11 The Parties agree to support the terms of the Settlement Stipulation as described herein. The Parties understand that this Settlement Stipulation is subject to Commission approval. The Parties agree that this Settlement Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Settlement Stipulation shall not be admissible as evidence in this or any other proceeding.

B. Integrated Terms of Settlement:

12 The Parties have negotiated this Settlement Stipulation as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Settlement Stipulation in its entirety. Each Party has participated in the drafting of this Settlement Stipulation, so it should not be construed in favor of, or against, any particular Party.

C. Procedure:

13 The Parties shall cooperate in submitting this Settlement Stipulation promptly to the Commission for acceptance, so that it may be implemented on December 1, 2003. The Parties understand that a hearing to present the Settlement Stipulation is scheduled for September 23, 2003, and each Party shall make available to answer questions a witness or witnesses in support of this Settlement Stipulation. The Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Settlement Stipulation and to supplement the record accordingly. The Parties agree the remaining procedural schedule in the docket may be suspended, and will jointly request that the Commission so order.

14 The parties agree to stipulate into evidence the testimony and exhibits marked at the September 19, 2003, prehearing conference in this docket.

15 If the Commission rejects all or any material portion of this Settlement Stipulation, or adds additional material conditions, each Party reserves the right, upon written notice to the Commission and all Parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Settlement Stipulation. If any Party exercises its right of withdrawal, this Settlement Stipulation shall be void and of no effect, and the Parties will support a joint motion to reinstate an expedited procedural schedule for those dates specifically suspended by the Commission pursuant to the above request. No Party shall seek to revise, alter or amend the Commission's Order without concurrence of all Parties.

D. No Precedent:

16 The Parties enter into this Settlement Stipulation to avoid further expense, uncertainty, and delay. By executing this Settlement Stipulation, no Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at the Settlement Stipulation, and except to the extent expressly set forth in the Settlement Stipulation, no Party shall

be deemed to have agreed that such a Settlement Stipulation is appropriate for resolving any issues in any other proceeding. This Stipulation does not affect the ability of the Staff of the Washington Utilities and Transportation Commission and the Public Counsel Section of the Attorney General's Office to contest any future filing of the Company other than with respect to the consensus mechanism described in Paragraph II.B.

E. Execution:

17 This Settlement Stipulation may be executed by the Parties in several counterparts and as executed shall constitute one agreement.

Entered into on September 23, 2003.

By: _____
David J. Meyer
Senior Vice President and General Counsel
For Avista Corp.

By: _____
Donald T. Trotter
Assistant Attorney General
For the Staff of the Washington Utilities and
Transportation Commission

By: _____
Robert W. Cromwell, Jr.
Assistant Attorney General
For the Public Counsel Section of the Attorney
General's Office