APPENDICES

Avista Utilities - WASHINGTON

Comparison of Natural Gas Benchmark Mechanism: Current VS Proposed

		Current Mechanism			Proposed Mechanism	
Commodity Component:						
	Natural Gas Supply Basins			Natural Gas Supply Basins		
Weighting for Supply Basins	AECO	Sumas	Rockies	AECO	Sumas	Rockies
	50%	18%	18%	50%	18%	18%
	(14% float-determined annually			(14% float-determined annually		
	Sumas/Rockies can max 25% each)			Sumas/Rockies can max 25% each)		
Sharing of Basin Optimization		NO -covered risk of loss on			**Yes 80%/20%**	
		Tier 2				
Index Adder (Fixed) - $/Dekatherm / Fee	$0.05	Adder on all dekatherms		$ 900,000	Management Fee	
Tiered Commodity Program:						
(1) Long Term average usage hedged (JP included)	50%	Fixed / Storage		50%	Fixed / Storage	
(2) First Of Month (FOM) index	47.0%	FOM pricing		50.0%	FOM purchased to Average	
(3) Daily Purchases and Sales	3.0%	Gas Daily Purchases and Sales		+- 8%	Daily Purchases and Sales	
(4) Use of JP and Plymouth storage facilities - (Nov 20 - Feb 10)	0.4%	Use of Storage		N/A	(Plus use of Storage)	
Sharing of Gains and Losses - Commodity Component		NO -AE obsorbed all losses			**Yes 80%/20%**	**(of daily swing**
		around Tier 2 range				**around the average)**
JP Storage Component						
Synthetic Withdrawal Cycle		Nov - Mar			Dec - Mar	
Injections		May - Sept			May - Sept	
		100% Cycle			100% cycle	
Sharing of Storage gains and losses		NO - Customers 100%			**Yes 80%/20%**	
Capacity Release/Off-System Sales Component						
Capacity Release and Off-System Sales Benchmark - Annual		$ 5,000,000	/ yr		$ 3,000,000	/ yr
- The Capacity Release/Off-System Sales Benchmark is guaranteed		(not guaranteed)			**Guaranteed**	
to customers on an annual basis						
Sharing of Cap Rel/Off-Syst Sales in excess of guarantee		Yes 50%/50%			**Yes 80%/20%**	
Credit for A&G Cost Savings						
A&G Cost Savings		$80,600 annually for WA		$22,400 annually for WA - (adjusted for new		
				Utility employee required to track components)		
Timeline						
		Apr 1, 2002 - Jan 29, 2004		Jan 30, 2004 - Mar 31, 2007		

APPENDIX A

AVISTA Corp.

Avista Energy - Management of Gas Procurement Services

Proposed Benchmark Mechanism - Overview

Effective: Jan 30, 2004 - Mar 31, 2007

Total Cost Of Gas = $76.3m*

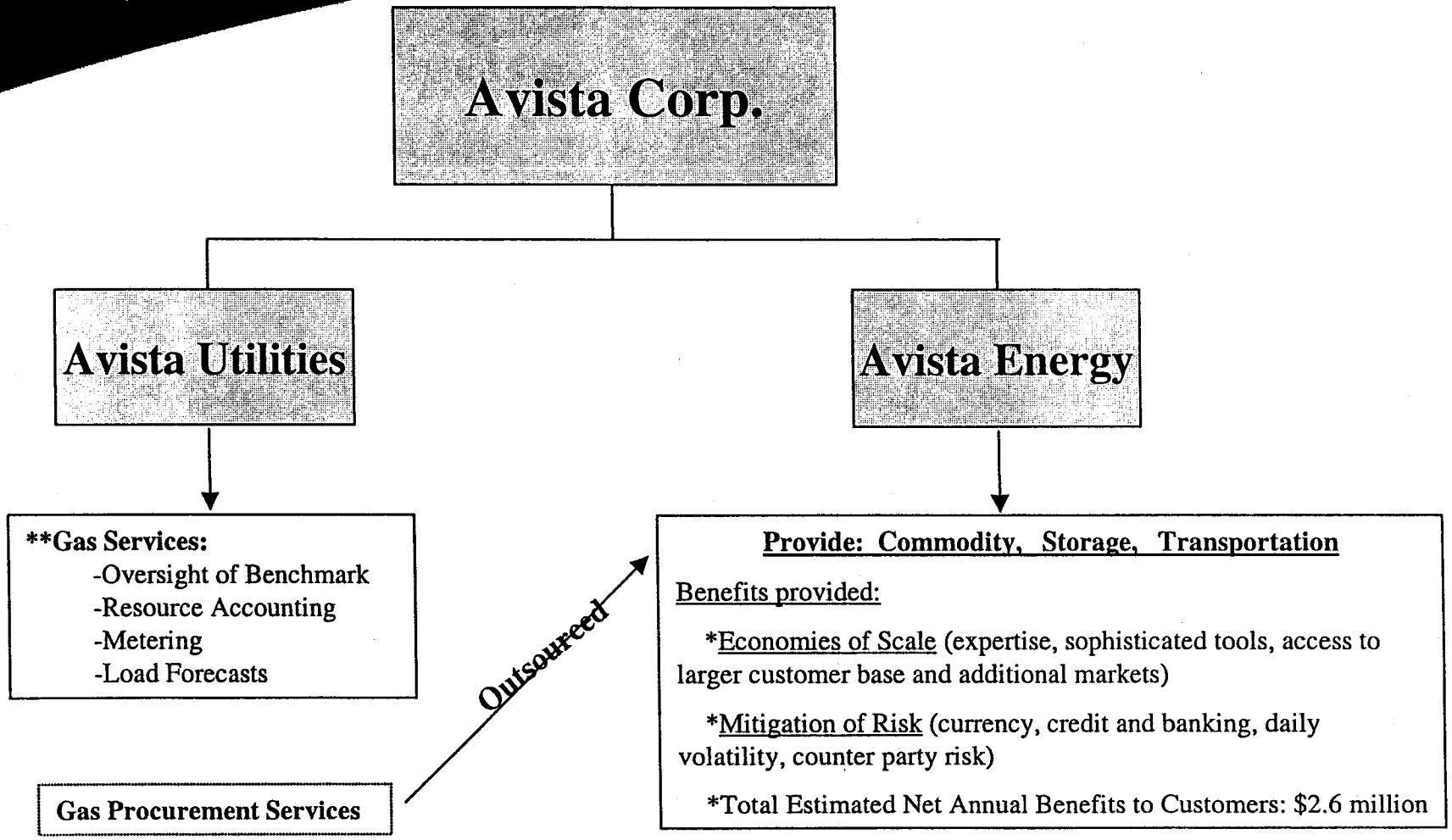
Commodity 76.2% $58 m	Storage 6% $4.5 m	Transportation 17.8% $13.6 m
Tier 1 50% Fixed/Storage Tier 2 50% FOM (purchase to average load) Tier 3 +/-8% Daily balancing (daily sales or purchases to balance loads, at AE's average daily cost/revenue) 80/20 sharing on Tier 3	100% Cycle 80/20 Sharing	$3m Guarantee 80/20 Sharing after

Basin Optimization 80/20 Sharing

*WA only for April 2002 - March 2003

APPENDIX B

Exhibit 2 (KON-2)
Docket No. UG-021584
4/18/03 Page 1 of 2

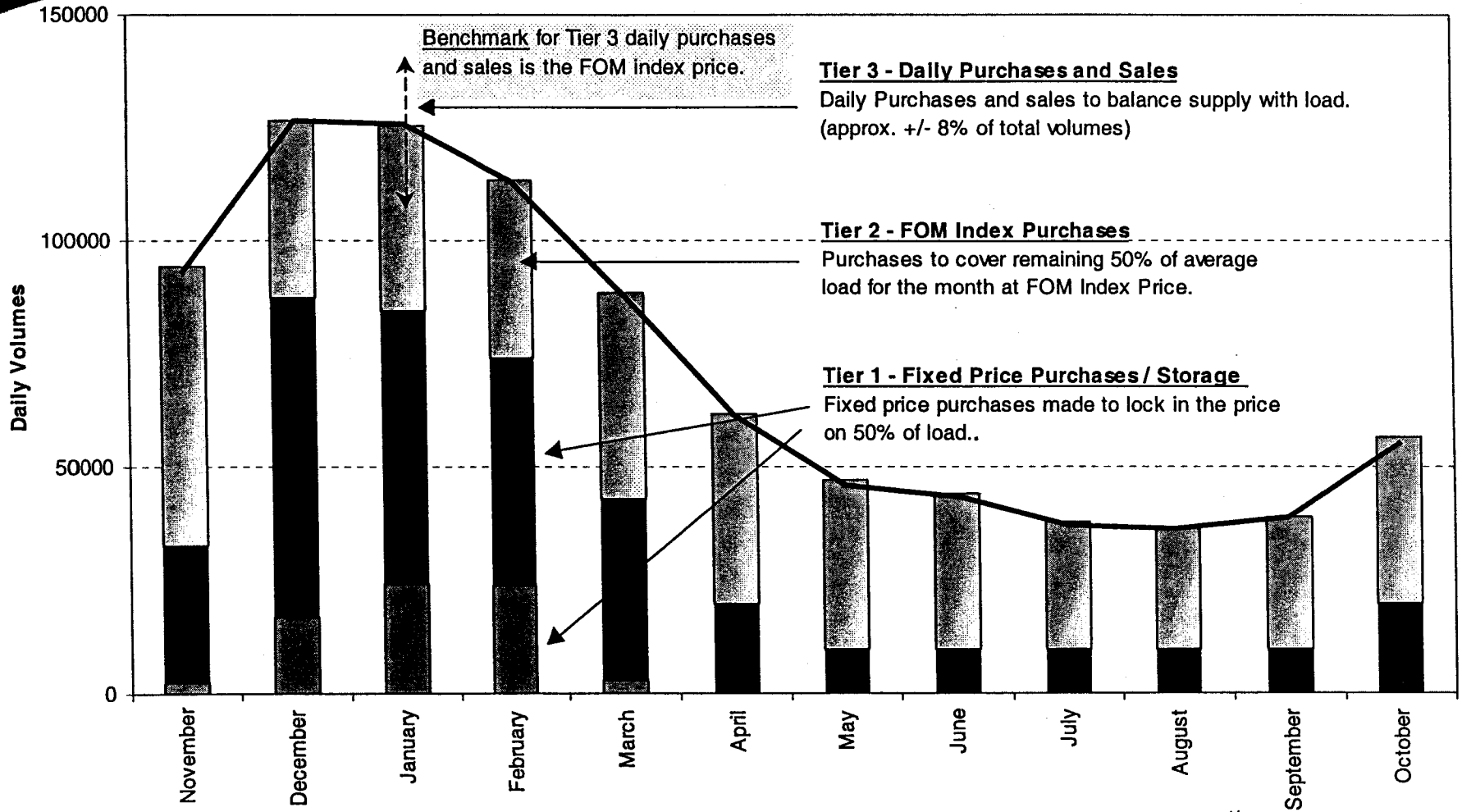


APPENDIX C

Exhibit 2(KON-2)
Docket No. UG-021584
4/18/03 Page 2 of 2

AVISTA Corp.

Illustration of Gas Procurement Strategy and External Benchmark

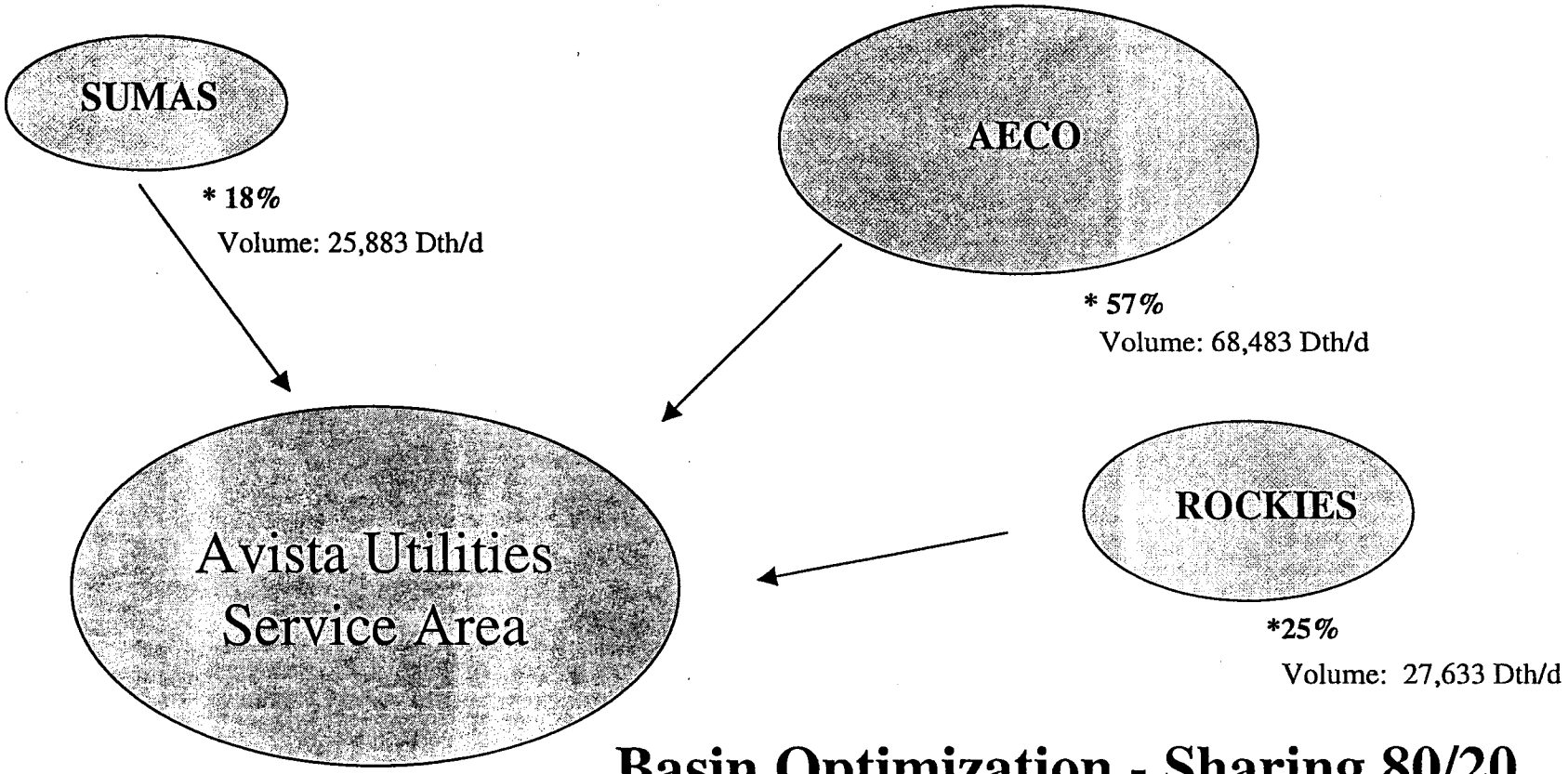


APPENDIX D

Exhibit 4 (KON-4)
Docket No. UG-021584
08/18/03 Page 1 of 1

AVISTA Corp.

Pipeline Transportation - allows Avista Utility to receive Commodity from three Supply Basins to serve System load



Basin Optimization - Sharing 80/20

Note: (Volumes listed are available volumes WA only)
*** % Split between basins effective November 1, 2003.**
- Maximum transportation allowed at Average day is 35% SUMAS, 32% ROCKIES, and 63% AECO.

APPENDIX E

Natural Gas Benchmark Mechanism
Analysis of Optimal and Actual Operation and Profitability
Summary of Results

AE Actual Operation of Benchmark Mechanism								
		Sept - Dec 1999	2000	2001	2002	Jan - Feb 2003	Total	Annual Average
Commodity Component	Forward Basin Optimization	$136,348	$216,462	$231,735	$896,786	$342,439	$1,823,770	$521,077
	Basin Optimization P&L	$404,988	($3,205,521)	$802,437	$3,147,015	$902,379	$2,051,298	$586,085.12
	Peaking P&L	($72,054)	($8,313,677)	($351,051)	($267,608)	$127,252	($8,877,138)	($2,536,325.21)
	Tier 3 P&L				($74,905)	$219,436	$144,531	$41,294.43
ansportation Component	Avista Energy Share	$48,575	$1,022,464	$321,249	$22,443		$1,414,731	$404,208.86
	Avista Utilities Share	$1,453,178	$12,250,167	$5,939,209	$4,942,088	$756,266	$25,340,908	$7,240,259.43
Storage Component	Avista Energy Storage Optimization	$84,179	$569,260	($274,997)			$378,442	$108,126.29
	Avista Utilitites Storage Optimization	$304,179	$1,229,260	$385,003	$82,500		$2,000,942	$571,697.71
	Winter Summer Differential		$7,063,379	($1,037,031)	$3,392,143		$9,418,491	$2,690,997.40
	Peaking Benefit	$0	$0	$0	$0	$0	$0	$0.00
	Total System P&L	$2,359,393	$10,833,794	$6,018,554	$12,142,463	$2,347,772	$33,701,977	$9,629,136.30
	Avista Utilities Share	$1,155,321	$30,253,819	$4,557,808	$4,693,001	($835,240)	$39,824,708	$11,378,487.93
	Index Adder Expense	($310,981)	($923,213)	($807,514)	($889,131)	($364,909)	($3,295,748)	($941,642.29)
	Premium for Physical Delivey	$41,067	$123,200	$123,200	$123,200	$20,533	$431,200	$123,200.00
	Currency	$58,667	$176,000	$176,000	$176,000	$29,333	$616,000	$176,000.00
	Credit	$170,833	$512,500	$512,500	$512,500	$85,417	$1,793,750	$512,500.00
	Overhead	$136,167	$408,500	$408,500	$408,500	$68,083	$1,429,750	$408,500.00
	Avista Utilities Actual Total P&L	$1,251,073	$30,550,806	$4,970,494	$5,024,069	($996,782)	$40,799,660	$11,657,045.64
	Avista Energy Share	$602,036	($9,711,012)	$729,373	$3,723,730	$1,591,506	($3,064,367)	($875,533.39)
	Index Adder Revenue	$310,981	$923,213	$807,514	$889,131	$364,909	$3,295,748	$941,642.29
	Premium for Physical Delivey	($41,067)	($123,200)	($123,200)	($123,200)	($20,533)	($431,200)	($123,200.00)
	Currency	($58,667)	($176,000)	($176,000)	($176,000)	($29,333)	($616,000)	($176,000.00)
	Credit	($170,833)	($512,500)	($512,500)	($512,500)	($85,417)	($1,793,750)	($512,500.00)
	Overhead	($136,167)	($408,500)	($408,500)	($408,500)	($68,083)	($1,429,750)	($408,500.00)
	AE Actual Total P&L	$506,284	($10,008,000)	$316,687	$3,392,662	$1,753,048	($4,039,319)	($1,154,091.09)

APPENDIX F

Bench Request #1

Exh. 209C

CONFIDENTIAL PER PROTECTIVE ORDER IN DOCKET NO. UG-021584

APPENDIX G

Exhibit 5

Daily Log
February 24, 2004
(Dates and Numbers are for Illustrative Purposes Only)

Avista Utilities Monthly Load and Transportaion Characteristics

Average Load		84,767
Total Delivered		105,147
		Basin Balance
Transport	Sumas	18,015
Transport	Rockies	23,246
Transport	AECO	55,578

Tier 1 - Fixed Price Purchases

		Basin Balance	Fixed Price	Gas Cost
Tier 1 Fixed	Sumas	6,300	$4.50	($28,350.00)
Tier 1 Fixed	Rockies	8,750	$3.00	($26,250.00)
Tier 1 Fixed	AECO	19,950	$4.25	($84,787.50)
Tier 1 Storage	JP	17,500	$4.50	($78,750.00)
Tier 1	Total	52,500		($218,137.50)

Tier 2 - FOM Index Purchases

		Basin Balance	FOM Index	Gas Cost
Tier 2 Index	Sumas	5,808	$4.76	($27,646.37)
Tier 2 Index	Rockies	8,067	$3.14	($25,329.60)
Tier 2 Index	AECO	18,392	$4.72	($86,888.38)
Tier 2	Total	32,267		($139,864.34)

Tier 3 Daily Load Balancing

		Basin Balance	Buy/(Sell)	Weighted FOM	GD Index	Benefit/(Loss)
Tier 3	Sumas	18,015	0	$4.33	$5.79	
Tier 3	Rockies	23,246	0	$4.33	$4.45	
Tier 3	AECO	46,386	20,380	$4.33	$6.41	($42,227.48)
Tier 3	JP	17,500	0			
Tier 3	Total	105,147	20,380			($42,227.48)

Storage Optimization

		Basin Balance	Buy/(Sell)	Day Price	Forward Price	Benefit/(Loss)
Daily Storage Optimization		0				$0.00
Daily Storage Optimization	Total					$0.00
			Fixed Price	Weighted FOM		
Winter Summer Differential	Total	17,500	$4.50	$4.33		($2,894.61)
Storage Optimization	Total					($2,894.61)

Capacity Optimization

		Basin Balance	Buy/(Sell)	FOM Index	GD Index	Benefit/(Loss)
Off-System Sales	Sumas	(0)			$ 5.785	$0.00
Off-System Sales	Rockies	0			$ 4.450	$0.00
Off-System Sales	AECO	9,192			$ 6.407	$0.00
Off-System Sales	Total					$0.00
		Release				Benefit/(Loss)
Capacity Releases	Sumas					$0.00
Capacity Releases	Rockies					$0.00
Capacity Releases	AECO					$0.00
Capacity Releases	Total					$0.00
Capacity Optimization	Total					$0.00

Basin Optimization

		Basin Balance	Buy/(Sell)	FOM Index	GD Index	Benefit/(Loss)
FWD Basin Opt	Sumas	0	(12,108)	$4.76		$57,634.08
FWD Basin Opt	Rockies	23,246	6,429	$3.14		($20,187.51)
FWD Basin Opt	AECO	44,021	5,679	$4.72		($26,829.54)
FWD Basin Opt	JP	17,500				
FWD Basin Opt	Total	84,767	0			$10,617.04
		Basin Balance	Buy/(Sell)	FOM Index	GD Index	Benefit/(Loss)
Daily Basin Opt	Sumas	18,015	18,015		$5.79	($104,216.78)
Daily Basin Opt	Rockies	23,246	0		$4.45	$0.00
Daily Basin Opt	AECO	26,006	(18,015)		$6.41	$115,414.90
Daily Basin Opt	JP	17,500	0			
Daily Basin Opt	Total	84,767	0			$11,198.12
Total Basin Optimization						$21,815.16

APPENDIX H

Avista Utilities Benchmark Mechanism Compliance with Commission Policy Statement in Docket No. UG-970001 EXHIBIT__(KON-5)		
Policy #		**Utility Compliance**
1. The Commission shall consider gas cost incentive mechanisms that reward companies based on performance relative to an external benchmark of market gas cost. The benchmark should be used in conjunction with the current PGA/deferral process. PGA rates, as price signals, should provide the most accurate estimate of expected gas costs and should be based on the Company's most accurate estimate of prospective gas costs, with deferral accounting and true-up of revenues collected to actual costs. The sharing mechanism should be based on a comparison of actual gas costs to a benchmark.		The commodity component of the Benchmark Mechanism is designed such that Avista Energy's performance is based on a comparison to an external benchmark of gas cost. (See pages 7-9 of Mr. Norwood's testimony (KON-3T)) The Benchmark is used in conjunction with the Company's current PGA deferral process. PGA rates are based on the Company's most accurate estimate of prospective gas costs with deferral accounting and true-up of revenues collected to actual costs. With regard to a comparison of actual gas costs to a benchmark, see pages 11-13 of Mr. Norwood's testimony (KON-3T).
2. Total gas costs should be included in the benchmark, including fixed and variable transportation costs, fixed and variable commodity costs, and fixed and variable storage costs.		All of the gas costs that are generally included in the Company's PGA process are managed under the proposed Benchmark Mechanism.
3. Incentive mechanisms should be simple to understand and apply, avoiding complex calculations which could lead to disputes or gaming.		Given the complexity of managing natural gas procurement operations, the Benchmark Mechanism is relatively straightforward. It is a portfolio of commodity supply, storage flexibility, and optimization of available pipeline transportation. The Company has proposed a Daily Log that will serve to simplify the audit and review process.
4. The gas commodity portion of incentive mechanisms should judge performance against a benchmark for gas costs based on market prices, not an LDCs' historic gas costs. Using an external benchmark for the commodity portion will provide LDCs with the incentive to perform better than the market.		The commodity portion of the Benchmark Mechanism includes an external benchmark of market prices, against which to measure performance. See pages 7-9 of Mr. Norwood's testimony (KON-3T).
5. Revenue and risk sharing should be symmetrized between the company and ratepayers, *i.e.*, incentive proposals should incorporate a risk of loss from poor performance as well as opportunities for rewards from good performance.		The proposed Benchmark Mechanism includes a symmetrical sharing of 80/20 around all components of the Mechanism, which incorporates a risk of loss from poor performance as well as opportunities for rewards from good performance. See page 1 of Mr. Norwood's Exhibit__ (KON-2).
6. Dead bands around the total cost benchmark may be useful to dampen random market effects. If a company's incentive proposal incorporates a dead band, then it must apply to both losses and gains.		Dead bands are not mandatory under this policy. The Company has chosen a tiered approach to mitigate price risks and believes it is in the best interest of the utility's customers.

APPENDIX I-1

Avista Utilities Benchmark Mechanism Compliance with Commission Policy Statement in Docket No. UG-970001 EXHIBIT__(KON-5)		
Policy #		**Utility Compliance**
7. Incentive mechanisms should be structured as an experiment, so should have limited duration and should be explicitly evaluated at the end of the period to determine success or failure.		The original Benchmark Mechanism and each subsequent extension followed this policy and set up an experimental period of three years or less. An evaluation period at the end of each term allowed for review by the Commission. In addition, Staff has the ability to review all costs included annually within the PGA filing process.
8. Proposals for incentive PGAs should include documentation to demonstrate how the LDC would have performed under the proposed incentive mechanism during each of the previous three years. Historic performance under the specific proposals will assist the Commission and Staff in fine tuning specific aspects of benchmarks, setting dead bands, and assessing the performance of experimental incentive proposals.		Summary information has been provided of the benefits to customers and to Avista Energy for the period September 1999 through September 2002 in Confidential Exhibit __(RHG-5C).
9. Benchmarks that include a combination of market based indices should demonstrate the liquidity of each index. If it appears an LDC can exert market power and so influence the level of any such index, the LDC should include a proposal for how the company will temper that market power in calculating its incentive benchmark.		The indices used in the Benchmark Mechanism are for trading points that are very active and liquid. These indices are commonly used for pricing in the industry for both physical and financial transactions. No ability or opportunity to exert market power or influence exists under the Benchmark Mechanism.
10. The Commission should avoid establishing a one-size-fits-all incentive mechanism. Each LDC should be allowed to file an incentive mechanism that conforms with these policies, and meets the company's specific needs.		The Company has proposed an incentive mechanism that it believes best meets the utility's customer needs, while complying with the Commission's Policy Statement.
11. In special circumstances, the Commission may consider gas cost incentive mechanisms other than those based on externally generated benchmarks. However, other gas cost incentive mechanisms should conform generally with these policies. Requests for other incentive mechanisms should include an explanation why a company believes an alternative method is more appropriate to their circumstance than an external benchmark.		The commodity component of the Benchmark Mechanism is designed such that Avista Energy's performance is based on a comparison to an external benchmark of gas cost. (see pages 7-9 of Mr. Norwood's testimony (KON-3T))

APPENDIX I-2

Avista Utilities Benchmark Mechanism Compliance with Commission Policy Statement in Docket No. UG-970001 EXHIBIT__(KON-5)		
Policy #		**Utility Compliance**
12. The Commission should not consider narrowly focused incentive mechanisms, such as simply sharing capacity release revenue or off-system sales revenue. A narrowly focused approach provides too many opportunities for the incentive system to be gamed, thus failing to provide incentives to minimize gas costs.		The current Benchmark Mechanism is broadly focused, is designed to prevent the gaming or manipulation of results, and takes into consideration the entire assets of the utility for maximizing benefits to utility customers.
13. Procedures associated with proposed incentive mechanisms should be tariffed to clearly establish both how fixed and variable components of the benchmark are calculated and how deviations from the benchmark will flow into rates. Providing clearly identified procedures in approved tariffs will help to minimize potential future controversies.		The procedures and calculations associated with the proposed Benchmark Mechanism are clearly outlined in Tariff Schedule 163 and flows through the current PGA deferral process to minimize potential future controversies.
14. Each LDC--even if incentives are not proposed--should clearly tariff the procedures for setting its PGA and deferral rates in that company's next PGA/deferral rate filing. Providing clearly identified procedures will help to minimize potential future controversies.		The procedures and calculations associated with the proposed Benchmark Mechanism are clearly outlined in Tariff Schedule 163 and flow through the current PGA deferral process to minimize potential future controversies. The Company does not believe that Tariff 163 constitutes pre-approval of prudence issues by the Commission.
15. Gas cost incentive mechanisms should not replace the Commission's ability to review the prudence of utility management actions in general rate proceeding or deferred gas cost filing.		The current Benchmark Mechanism continues to preserve the Commission's ability to review gas procurement operations to ensure that reliability of service is not compromised and that rates to customers are fair, just, and reasonable.