I. SUMMARY

1 For the most part, the initial briefs of the Parties join the key issues in this case: How to deal with the affiliated interest transactions between Avista Utilities and Avista Energy; Whether the structure of the proposed Mechanism is appropriate; and Whether ratepayers are getting a good deal or not. Avista falls well short of sustaining its burden of proof on each of these key issues.

2 First, Avista has not proved compliance with the "lower of cost or market" standard for affiliated interest transactions. Avista offers its "Daily Log," but that is no panacea. The Daily Log reports information relevant to the Mechanism's pricing formula, not Avista Energy's actual cost of gas that serves the Utility's customers.

3 Second, Avista has not provided objective evidence that proves the structure of its proposed Mechanism is appropriate. Instead, Avista defends the Mechanism's structure by unevenly applying subjective criteria.

4 Finally, Avista has not proved the proposed Mechanism is a good deal for ratepayers. Avista's brief exposes new, critical weaknesses in Avista's analysis.

II. REPLY TO AVISTA

A. Avista Has Not Passed the Cross-Subsidy Test for Affiliated Interest Transactions

5 Staff's Initial Brief explained that because the transactions between Avista Energy and Avista Utilities are affiliated interest transactions, Avista needs to

comply with the "lower of cost or market" standard. Avista has not complied, and cannot comply, based on the way the proposed Mechanism is structured and operated. (Staff Init. Br. at 8-16, ¶¶ 26-52.)

6 Avista does not directly confront the affiliated interest issue. Instead, Avista claims the proposed Mechanism is "auditable," and tries to limit Staff's concerns to Tier 3. (Avista Init. Br. at 21, ¶¶ 70-71 and at 51-55, ¶¶ 154-65.) Avista misses the mark.

1. The Commission's Inability to Determine Avista Energy's Costs is Not Limited to Tier 3

7 Avista fails in its attempt to limit Staff's concern to Tier 3 because the inability to track Avista Energy's actual costs to serve the Utility applies to all components of the Mechanism. (Staff Init. Br. at 13-14, ¶¶ 44-46, and record cited therein.)

8 Avista counters that the commodity transactions Avista Energy enters into for Tier 1 and Tier 2 are "tagged" for the Utility. (Avista Init. Br. at 51, ¶ 154.) In fact, those commodity contract prices are only the "starting point" for Avista Energy's activities in serving the Utility. (Parvinen, Exh. 201-T at 29:4-11 and Staff Init. Br. at 14, ¶ 45.) It is critical for the Commission to recognize the gas from these so-called "tagged" transactions does not necessarily serve the customers of Avista Utilities. These commodity contracts are rolled into Avista Energy's total portfolio and managed as such. (*Id.*) Indeed, no Mechanism component is priced at Avista Energy's actual cost to serve the Utility. (*See* Staff Init. Br. at 13-16, ¶¶ 42-50.)

2. The Information Relevant to the Mechanism's Formula is Not Relevant to the Determination of Avista Energy's Costs

9 Avista tries to support its position by pointing to its quarterly reports to the Commission, its proposed Daily Log (Exh. 5), and the availability of index prices used in the Mechanism's pricing formula. (Avista Init. Br. at 51-55, ¶¶ 154-65.)

10 While Staff agrees the relevant indices are published, those indices are not relevant to a determination of Avista Energy's costs. Finding a number (index price) and putting it on a piece of paper (quarterly report or Daily Log) tells the Commission nothing about Avista Energy's actual costs, or whether the transactions pass the cross-subsidy test.

11 The quarterly reports and the Daily Log provide only the information and calculations used by Avista Energy to bill the utility under the Mechanism's pricing formula. This may make the calculations verifiable, but that does not make the proposed Mechanism auditable in a manner relevant to the "lower of cost or market" standard.

12 Avista needs to identify, track and support the actual cost of the gas Avista Energy supplies to the Utility for its retail customers. The proposed Mechanism

does not do that. The quarterly report does not do that. The proposed Daily Log does not do that.

13 A simple example supplied by Avista supports Staff's point that the Mechanism is inadequate to capture the actual costs of Avista Energy. In its brief, Avista explains how Avista Energy has the flexibility to "rearrange the portfolio" on a daily basis to take advantage of basin optimization opportunities. (Avista Init. Br. at 23-24, ¶ 77.) This is precisely the problem: "Rearranging the portfolio" affects the cost of gas Avista Energy supplies to the Utility. Avista Energy's ability to "rearrange" its portfolio applies to all commodity components of the Mechanism. (Staff Init. Br. at 13-16, ¶¶ 42-52 and Parvinen, Exh. 201-T at 21-30.)

14 For example, Avista Energy can "rearrange" its portfolio by selling Tier 1 or Tier 2 gas at the point of purchase, or to another one of Avista Energy's customers. So long as Avista Energy does not use the Utility's pipeline capacity to deliver the gas, the Mechanism does not credit ratepayers for these types of transactions. (*See, e.g.*, Norwood, TR. 140:8-18.) Consequently, while these transactions change Avista Energy's gas costs, the gas prices generated by the Mechanism do not reflect that change.

15 In sum, Avista's attempt to classify the affiliated interest issue as an "auditability" issue proves unavailing. The documents Avista relies on do not report all cost impacts when Avista Energy "rearranges the portfolio." Without

proof of Avista Energy's actual costs, Avista cannot prove the Mechanism satisfies the "lower of cost or market" standard. The Commission should not approve any affiliate-based incentive mechanism unless and until the utility provides that proof.

B. The Structure of the Proposed Mechanism is Unsound. Avista's Subjective Support for its Proposed Benchmarks Is Insufficient Proof the Mechanism is Appropriate

16 Staff's Initial Brief examined the structure of Avista's proposed benchmarks and provided objective reasons why they are unacceptable: they reward average and below average performance; they can penalize above average performance; they are asymmetric in some cases; or they can render a reward based on normal market conditions, rather than superior performance by Avista Energy. (Staff Init. Br. at 17-25, ¶¶ 53-79.)

17 By contrast, Avista says the incentives ought to be "meaningful." (Avista Init. Br. at 48, ¶ 141.) Avista makes the task of determining what is "meaningful" even more difficult by asking the Commission to analyze the "interplay between all of the components," and to "look at all the pieces and balance them out." (Avista Init. Br. at 31, ¶ 104 and at 32, ¶ 106.) While Avista concedes this is a "balancing act" (*id.* at 32, n. 15), it offers no objective means for the Commission to perform such a "balancing act."

18 As we discuss below, Avista's subjective defense of its proposed benchmarks is insufficient to satisfy its burden of proof.

1. Avista's Figures Prove the Mechanism's Incentives Are Inappropriate

19 Avista's idea that incentives under the Benchmark Mechanism need to be "meaningful" presents a subjective standard that is difficult to analyze. Nonetheless, there is objective evidence that proves Avista's proposed benchmarks are inappropriate.

20 Avista says Avista Energy expects to net only $1 million per year off the proposed Mechanism. (Avista Init. Br. at 59, ¶ 177.) This means Avista Energy expects to net only $100,000 each year in incentive payments, because the $1 million figure includes the proposed $900,000 fixed management fee, yet that fee is not an incentive payment. ($1 million - $900,000 = $100,000) (*See* D'Arienzo, TR. 444:4-10.)

21 In short, according to Avista's case, Avista Energy expects to net an incentive payment of a mere $8,333 per month, on average.[1]

22 It is not credible that Avista Energy would find $8,333 per month to be a "meaningful" incentive. Consequently, either the incentives under the proposed Mechanism are insufficient, or (more likely), Avista has grossly understated or unquantified all the benefits Avista Energy will realize. Either way, Avista has failed to sustain its burden to prove the proposed Mechanism is appropriate.[2]

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[1] $100,000/year ÷ 12 months/year = $8,333.33/month.

[2] Avista also claims Avista Energy has no incentive to "favor one [component] over the other," (Avista Init. Br. at 11, ¶ 37, quoting Mr. Norwood's testimony in Exh. 1-T at 11:10-12. *See also* Norwood, TR. 173:1-3.) However, that is not true. For example, Avista's proposed Transportation

2. Avista's Proposed "Balancing Act" Approach is Not Appropriate Because it Rests on Subjective Considerations. Avista Has Not Even Proved the Proposed 80/20 Sharing Percentages Are Appropriate

23 Avista's own "balancing act" analysis is highly subjective and inadequately defended. Consider Avista's proposed 80/20 sharing percentages. The Commission will search the record in vain for any objective proof demonstrating the 80/20 sharing percentages are appropriate compared to, say, 75/25 sharing, 50/50 sharing, or 90/10 sharing.

24 In effect, Avista's case is that 80/20 sharing is appropriate because Avista thinks that is an appropriate "balance." That is not enough. Avista has not proved the propriety of the most basic elements of its proposed Mechanism.

3. In Any Event, Avista Has Not Provided Sufficient Information to Enable the Commission to Conduct a Defensible "Balancing"

25 Assuming Avista's "balancing act" approach has merit, Avista has failed to itemize each trade-off and interrelationship that must be balanced among all of its proposed benchmarks. Accordingly, Avista has failed to provide the Commission all information necessary to determine an appropriate "balancing."

Component guarantees $3 million in revenues from off-system sales and capacity release transactions, with 80/20 sharing beyond $3 million. But the Basin Optimization Component has no guaranteed revenue level. Accordingly, the proposed Mechanism provides Avista Energy an incentive to favor off-system sales or capacity release transactions before it does any basin optimization transactions.

26 Moreover, because each of Avista's proposed benchmarks are flawed (*see* Staff Init. Br. at 17-25, ¶¶ 53-79), it would be serendipitous if these flaws "cancel each other out," yielding an acceptable mechanism.

27 The record also proves Avista has a poor track record on "balancing" the risks and rewards under the Mechanism. Consider basin optimization benefits. As Staff documented, Avista Energy encountered unanticipated risk in 2000, and suffered significant losses that year. In April 2002, the Mechanism was changed to minimize that risk. Yet Avista Energy kept the ability to exploit basin optimization benefits for its sole use, despite the reduced risk. (Staff Init. Br. at 29, ¶¶ 95-96.)

28 In other words, by using a subjective approach, Avista was able to justify a mechanism that substantially minimized Avista Energy's risk, without changing Avista Energy's reward. This simply confirms the inadequacies of Avista's subjective "balancing act" approach. Ratepayers deserve better.

4. Conclusions

29 The proposed Benchmark Mechanism is Avista's latest attempt to "balance" the risks and rewards. There is no reason to believe this version is any better than the last one. This is not the sort of finely tuned, well-conceived and transparent mechanism in which the Commission can have any confidence. It should not be approved.

C. Ratepayers Are Not Getting a Good Deal

30 Both Staff and Avista have addressed in detail the disputed computations regarding whether ratepayers are getting a good deal with the proposed Benchmark Mechanism. (Staff Init. Br. at 34-48, ¶¶ 111-64, Avista Init. Br. at 14-18, ¶¶ 56-62, at 27-28, ¶¶ 88-99 and at 38-49, ¶¶ 121-48.) There has been little narrowing of the issues here, but once the arguments are focused, it is plain that Avista has not proved ratepayers are getting a good deal.

31 First, we remind the Commission of the many costs and benefits that are not taken into account in the Staff/Company table on page 3 of Exhibit 53-T. (Staff Init. Br. at 35-36, ¶¶ 114-122.) Avista's brief fails to take into account any of these costs and benefits. The result is Avista has not borne its burden of proof on this issue.

32 Second, even if those missing costs and benefits were ignored, Avista still would not prevail. Avista's Currency Risk, "Load Volatility" and Transportation Benefits analyses render overstated results. If the proper analysis is done, the facts show ratepayers are not getting a good deal.

1. Currency Risk

33 At hearing, Avista characterized its $176,000 cost estimate for Currency Risk as the cost of a one-cent per decatherm increase in the value of the Canadian dollar against the American dollar. (Gruber, Exh. 53-T at 12:15-17.) As Staff explained,

Avista's assumption that the Canadian dollar will always be strengthening against the American dollar is unproven and unrealistic. (Staff Init. Br. at 38-39, ¶¶ 125-29.)

34 Avista has now renamed this $176,000 the "cost to hedge" against currency risk exposure. (Avista Init. Br at 17, ¶ 61.) That is a misnomer. Nothing in the record supports any claim that the cost of a currency hedge is $176,000, or any other amount. If Avista wants to impute the cost of a currency hedge, it must provide market quotes from firms that will provide such a hedge.

35 Staff does not dispute that hedging currency risk would have a value. However, that value must be evaluated and "weighed against the cost." (Parvinen, TR. 501:4-7.) The record provides little useful evidence of currency risk to Avista, and no evidence at all on the actual cost to hedge that risk. Accordingly, on this record it is not possible to know whether a currency hedge is worthwhile.

36 In sum, Avista's latest attempt to defend its unsupported currency cost estimate by renaming it the cost of a hedge, is as unjustified as Avista's notion that the Canadian dollar consistently will strengthen against the American dollar. It should be rejected.

2. "Load Volatility"

37 The rather heated disagreement between Staff and Company on "Load Volatility" issues centers on whether or not there is truly an incremental cost to serve Tier 3 loads. However, lost in the arguments is the fact that the majority of the

overall dollar difference between Staff and Company is unrelated to that issue. As Staff explained, $1,538,422.20 of the $1,991,000 difference between Staff and Company on "Load Volatility" is related to the 20% of benefits paid to Avista Energy that would flow to the Utility absent the Mechanism. (Staff Init. Br. at 39-40, ¶¶ 132-133.)

3. Transportation Benefits

(1) Avista's Analysis of Exhibit 214 Proves Its Position on Transportation Benefits is Unrealistic

38 Staff's Initial Brief describes in detail the problems with Avista's calculation of Transportation Benefits, including the infirmities in Avista's Exhibit 214. (Staff Init. Br. at 44-48, ¶¶ 149-162.)

39 In its Transportation Benefits analysis, Avista provides Table 5, which purports to summarize Exhibit 214.[3] (Avista Init. Br. at 44, "Table 5.") In that table, Avista estimates the Utility would have been able to achieve a total of only $1,571,950 in off-system sales margins "under Normal Utility practices." (Avista

[3] Exhibit 214 is not in table form. Accordingly, Avista has had to make some assumptions in producing Table 5 in its brief. Staff has not been provided the workpapers supporting Table 5. However, Staff believes the figures in Table 5 were not developed in the same manner as Exhibit 209-C. For example, Staff understands the workpaper used to support Exhibit 209-C applied a percentage to the line entitled "Margins per Utility Practice" (line 12 of Exhibit 209-C) to derive the figure on the line for "Less All-Gates Deliveries to Endusers (these sales would not have been made by the utility)." However, on Table 5 on page 44 of Avista's initial brief, the ($4,155,967) figure appears to be based on some other calculation Avista has yet to explain or support.

Init. Br. at 44, Table 5, line 14.) This reflects only $381,040 per year, on average, for off-system sales margins in this state.[4]

40 With all due respect, such a trifling sum is nonsensical, undermining Avista's entire Transportation Benefits analysis. Indeed, if *any* regulated utility with assets like Avista's were capable of generating no more than $318,040 per year in off-system sales margins, a complete management prudence review would be fully justified.

41 For example, Avista conceded the Utility would do no worse today than it did before the Mechanism in capturing Transportation Benefits. (Gruber, TR. 273:19 to 274:12.) Before the Mechanism, Avista Utilities was achieving around $1.8 million in off-system sales margins for Washington and Idaho in both 1995 and 1996, with no help from Avista Energy. (Exh. 22, Avista's 1997 IRP at C-9.) This amounts to $1,308,960 for Washington alone,[5] which is over four times the $318,040 estimate Avista now seeks to defend. This proves Avista's Transportation Benefits analysis is not reasonable.

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[4] The $1,571,950 figure on line 14 of Avista's Table 5 is a three-year figure for Washington and Idaho. (*See* lines 20 and 21 of Table 5.) To derive an annual, Washington-only value, this $1,571,950 needs to be multiplied by the 72.72% allocation factor, and the result divided by 3: ($1,571,950 * .7272) ÷ 3 = $381,040.

[5] $1,800,000 * .7272 = $1,308,960.

(2) Avista's Pessimistic Outlook for Off-System Sales and Capacity Releases is Also Unjustified

42 Avista defends its proposed $3 million sharing threshold for Transportation Benefits with an unjustifiably grim outlook for future off-system sales and capacity release transactions. (Avista Init. Br. at 46-47, ¶¶ 138-140.) As Staff testified, there can be factors that improve the prospects for such transactions, such as growth in demand or other factors that use up available capacity. (Parvinen, TR. 500:6-8.)

43 Obviously, it is difficult to predict events such as the recent shut down of one of the Williams Company's gas pipelines in Western Washington. But events such as this can and do occur, and serve to increase the value of Avista Utilities' capacity rights on other pipelines. Avista's case requires the Commission to assume no such offsetting events will occur, and that is simply unrealistic.

D. Miscellaneous Issues

44 Staff has identified several issues that are not as important as the key issues identified above, but which still require comment. These are: 1) Avista's incomplete references to the record; 2) The futility in attempting to "shift" risk between Avista Utilities and its affiliate; 3) The lack of evidence to support Avista's claim that there is even more need for the Mechanism now than in the past; 4) Avista's unjustified reliance on memos from the Staffs of the Idaho and Oregon commissions; and 5)

Avista's unsupported claims of "errors" in Staff's calculation of the Transportation Benefits sharing threshold. We address each issue below.

1. Avista Mischaracterizes the Record By Omitting Key Facts

45 In several instances, Avista provides incomplete citations to the record.[6] This leads Avista to unsupported conclusions.

46 For example, Avista states that under the current form of the Mechanism, Avista Energy retains basin optimization benefits "to offset risks associated with covering daily load variability…" (Avista Init. Br. at 24, ¶ 78.) Avista makes the same claim at page 26, ¶ 86, where it says Avista Energy's "compensation for [Tier 3 daily volatility] was the opportunity to capture the basin optimization." (Quoting Mr. Norwood.)

47 In fact, both the degree of load volatility "risk" and Avista Energy's alleged right to unilaterally exploit basin optimization benefits as compensation for that risk, were unplanned, unintended consequences of the Mechanism. (Staff Init. Br. at 28-29, ¶¶ 91-96.) Indeed, Avista never told the Commission about this "risk compensation" theory until this case, and only after Staff spotted Avista Energy's

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[6] Avista also inaccurately depicts its own corporate structure. Appendix C to Avista's initial brief suggests "Avista Utilities" is a legal entity distinct from Avista Corporation. Avista shows Avista Utilities essentially as a "sister company" to Avista Energy. In truth, "Avista Utilities" is not a separate legal entity. "Avista Utilities" is simply the trade name used by Avista Corporation to refer to its electric and gas utility operations. (Parvinen, Exh. 201-T at 16:8-10.) In other words, Avista Utilities is legally indistinguishable from Avista Corp. Avista's Appendix C fails to accurately reflect that fact.

unilateral use of basin optimizations instead of choosing to do shared off-system sales. (Staff Init. Br. at 30, ¶ 96.)

48 Another example is Avista's selective quotation of Staff's testimony to suggest Staff agrees the $7.9 million figure on Avista's table on page 9 of Exhibit 102-T "would be a cost to the utility if the Mechanism were to revert back to the utility." (Avista Init. Br. at 29-30, ¶ 96, quoting Mr. Parvinen at TR. 514:13 to 515:2.)

49 In fact, Staff's testimony was the opposite: The $7.9 million would *not* be a cost to the Utility if the Mechanism were to revert back. In Avista's partial quote of Staff's testimony, Staff was characterizing the table according to Avista's case, not how that table correctly should be interpreted. Indeed, immediately following the end of Avista's partial quote, Staff clearly explained the Utility "would be able to avoid those numbers … by using storage." (Parvinen, TR. 515:4-9.)

50 Avista supplies another incomplete quote when it relies on Staff's statement that Avista Energy had not denied any information Staff requested. (Avista Init. Br. at 46, ¶ 197.) In fact, Mr. Parvinen clarified that he had indeed requested certain valuation information from Avista Energy, and it had not been provided. (Parvinen, TR. 536:20 to 537:8.)

51 Avista is also wrong to claim “general agreement” among the Parties on the six elements of the proposed Mechanism which Avista lists on pages 11-12, ¶¶ 38-44 of its initial brief.[7] In fact, Staff supports none of these six elements.

52 The Commission is entitled to be fairly appraised of the complete position of each Party. Avista creates an unfair portrayal of Staff’s case by using partial quotes and inaccurate position descriptions.

2. Investors Will Not Recognize Attempts to “Shift Risk” Between Avista Utilities and its Affiliate

53 To support its case, Avista points to the different “risk profile” of Avista Energy, and the “shifting of risk” from the Utility to Avista Energy that allegedly occurs under the Mechanism. (*E.g.*, Avista Init. Br. at 33, ¶ 109 and at 58 and 59, ¶¶ 176 and 180.)

54 Avista might have a point, if the Utility and Avista Energy were not affiliated. However, because Avista Utilities and Avista Energy are part of one publicly traded company, there can be no effective “risk shifting” between them:

> Q: [By Commissioner Hemstad]: Your ultimate credit rating will be determined by the performance of the entire corporation, not just Avista Utilities. That’s true, isn’t it?
>
> A: (By Mr. Norwood): We do have a corporate – overall corporate credit rating; that’s true.

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[7] Mr. Norwood made the identical claim in Avista’s rebuttal case, but he failed to provide any supporting reference to Staff or Public Counsel testimony. (Norwood, Exh. 3-T at 6:8 to 7:2.) Avista’s initial brief also fails to provide any reference to Staff or Public Counsel testimony to support Avista’s renewed claim of “general agreement” on the six listed elements.

(TR. 231:15-20.) Indeed, Standard and Poor's assigns a bond rating to Avista based on "the consolidated credit profile of Avista's utility business, its energy trading subsidiary Avista Energy Inc., and other small nonregulated subsidiaries." (Exh. 58, 4th ¶.)

3. Experience Belies Avista's Claim that the Mechanism is Needed Now More Than Ever

55 Avista's initial brief repeatedly claims the proposed Benchmark Mechanism is needed now more than ever. (*E.g.*, Avista Init. Br. at 5, ¶ 16, at 12, ¶ 46, and at 14, ¶ 55.) However, if gas incentive mechanisms (especially ones using affiliates) were as vital to gas distribution utilities as Avista suggests, they would be commonplace, with proven track records. Instead, experience shows they are rare and have no proven cost benefits.

56 In fact, to Staff's knowledge, the only other gas utility that uses an affiliate for gas supply purchases is Intermountain Gas, located in Idaho. (Parvinen, TR. 534:4-22.) Staff also conducted a search for any incentive mechanism with proven performance. The results were disappointing: "We found no incentive mechanism that was supported by definitive evidence of performance improvements." (Parvinen, Exh. 201-T at 40:7-10.)

4. Memos From Commission Staffs in Other States Do Not Inform or Dictate Appropriate Action Here

57 Avista also tries to buttress its case by relying on staff memos from the Idaho and Oregon commissions. (Avista Init. Br. at 3, ¶¶ 7-10.) However, it is evident the other states do not fully grasp the nuances of the mechanisms they have. As Staff testified, "… [Idaho Staff] seemed surprised to find out the magnitude of the basin differential benefits that were going to Avista Energy." (Parvinen, TR. 538:7-10.) In any event, Avista has yet to cite an order actually approving any version of Avista's mechanism in a contested case.

58 In a similar vein, Avista objects to terminating the Mechanism in Washington because it would be "cumbersome and inefficient" to not operate a mechanism here, while still operating mechanisms in Idaho and Oregon. (Avista Init. Br. at 4, ¶ 11, quoting Avista prepared testimony.)

59 This is not a valid consideration. The Commission cannot be held hostage by the presence (or absence) of a mechanism in other jurisdictions.[8] The Commission should decide whether the proposed Mechanism is in the best interest of the rate paying public in this state. The weight of the record on that issue compels the conclusion the Mechanism should be eliminated.

[8] In this regard, should the Commission approve a mechanism in this docket, it should not grant Avista's requested March 31, 2007 termination date. The mechanisms in the other two states terminate March 31, 2005. (*See* Avista's Init. Br. at 3, ¶ 7.) Having a later termination date here will give Avista the incentive to use the 2007 termination date to support the same sort of "hardship/inefficiency" argument in Idaho and Oregon in 2005.

5. Avista Says Staff Made "Numerous" and "Significant" Errors in Calculating a Transportation Benefits Threshold, But Avista Does Not Identify Any

60 Avista claims Staff made "numerous" and "significant" errors in challenging Avista's proposed guaranteed level of $3 million in capacity release/off-system sales revenue. (Avista Init. Br. at 6, ¶ 26 and at 33-38, ¶¶ 110-20.) However, the calculations Avista challenges are not Staff's calculations. Indeed, Staff's Exhibit 212 contains the detailed calculations supporting Staff's recommended threshold for the Transportation Component, assuming some form of mechanism is permitted to continue. Avista has yet to specifically address Exhibit 212, let alone prove any errors in that exhibit.

61 Avista also describes a difference between Staff and Company analyses on the level of capacity release/off-system sales the Utility could produce absent the Mechanism. (Avista Init. Br. at 38-44, ¶¶ 121-133.) However, Avista's analysis is irrelevant because it is based on the Utility's gas procurement strategy that existed before the Mechanism went into effect, not on what the Utility could achieve under an appropriate strategy suited to today's market conditions.

62 In sum, Avista fails to back up its broad charge that Staff erred in its calculation of the proper sharing threshold in the Transportation Component.

III. REPLY TO PUBLIC COUNSEL

63 Public Counsel's Initial Brief generally supports Staff's positions, so no reply is warranted.

IV. CONCLUSIONS AND RECOMMENDATIONS

64 For the reasons stated above, and in Staff's Initial Brief, the Commission should permit Avista's proposed Benchmark Mechanism to expire, subject to a 60-90 day extension from the termination date of the current tariff (January 29, 2004), to permit Avista time to "unwind" the current Mechanism.

Respectfully submitted this 9th day of January, 2004.

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