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AVISTA Corp.

March 12, 2004

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket No. UG-021584 –Compliance Filing of Proposed Transition Plan of the Natural Gas Benchmark Mechanism

Dear Ms. Washburn:

Enclosed for filing with the Commission are twelve copies of the Company's Compliance Filing regarding the proposed Transition Plan of the Natural Gas Benchmark Mechanism (Mechanism) and proposed revisions to the following tariff sheets:

Fourth Revision Sheet 150	Canceling	Third Revision Sheet 150
Fourth Revision Sheet 150A	Canceling	Third Revision Sheet 150A

The Commission issued its Sixth Supplemental Order in Docket No. UG-021584, on February 13, 2004, rejecting continuation of Avista Utilities' Benchmark Mechanism. The proposed revisions to Schedules 150 and 150A eliminate all references to the Benchmark Mechanism.

The Commission also extended the current Schedule 163 (Natural Gas Benchmark Mechanism) for 60 days after the date of the Order, to April 13, 2004. Under the proposed transition plan, the Benchmark Mechanism would terminate effective April 30, 2004. The Company requests the Commission grant an extension of the April 13, 2004 Schedule 163 termination date to April 30, 2004 (end of a calendar month), for ease of record keeping and accounting purposes.

The Order required the parties to consult regarding transition of the functions performed by Avista Energy under the current Mechanism (Schedule 163) back to Avista Utilities. The Company was directed to file its plan within 30 days of the Commission's Order.

The Commission noted in their Order at paragraph 89 "it (the Commission) acknowledges the Idaho and Oregon arrangements, leaving room for discussions of parties that develop a transition that coordinates with other Avista operations and provides the least disruption to the Company and its ratepayers." Described below, the Company's Transition Plan is a plan designed to avoid disruption for Company operations in each of its jurisdictions and for its ratepayers. This Plan provides adequate time for hiring, training and transition of new employees, creation of adequate counterparty contacts, and credit facilities, etc., while avoiding the inefficiencies associated with having part of the procurement functions at Avista Energy (Idaho and Oregon) and part of the functions at Avista Utilities (Washington).

The Company circulated the Company's proposed Transition Plan to the Commission Staff and Public Counsel in order to determine a plan which could be agreed to by all parties. Attached is the Company's proposed Transition Plan, which describes the procedures necessary to return the natural gas procurement, transportation and storage management functions back to Avista Utilities. The primary provisions within the proposed Transition Plan include:

1. Termination of Schedule 163 and the Benchmark Mechanism: The current Benchmark Mechanism and Schedule 163 would terminate in Washington effective April 30, 2004. For accounting purposes it will be important to terminate the Mechanism at the end of a calendar month.

2. Transition Period: The proposed Transition Period would be May 1, 2004 through March 31, 2005. During the proposed Transition Period, the Utility would continue to consult with and draw on the expertise of Avista Energy, however, management and decision-making related to the natural gas procurement functions would reside with Avista Utilities, under the Manager of Gas Supply. The execution of transactions would be conducted by Avista Energy.

3. Incentive Sharing Eliminated: There would be no incentive benefits or cost-sharing by Avista Energy. All Costs and Benefits associated with natural gas procurement functions: (i.e. Commodity, Jackson Prairie (JP) Storage, Transportation and Basin Optimization), would go to Avista Utilities' customers.

4. Under Avista Utilities' direction, Avista Energy would execute the following:
    a. Commodity: purchase a portion of the Utilities' natural gas requirements months in advance, some at first of month (FOM) index, along with daily purchases and sales (including Basin Optimization) and the use of storage to balance load.
    b. Storage: inject and withdraw storage providing the winter/summer price differential and reliability of peak day demand coverage.
    c. Transportation: optimize available pipeline transportation through capacity releases and off-system sales.

5. Management Fee: Avista Utilities would pay Avista Energy a management fee of $75,000 per month during the transition period for the services provided, which would be included in the PGA costs.

6. Training/Misc.: During the transition period, Avista Utilities would complete the tasks necessary to bring the gas procurement functions back within the utility, (i.e. hiring and training of employees, pipeline, storage and third party supplier notifications of change in contract relationships, development and documentation of internal administrative procedures, etc.).

7. Other Jurisdictions: The Benchmark Mechanism terminates in Idaho and Oregon March 31, 2005. Effective April 1, 2005 execution of natural gas procurement services for all three states (Washington, Idaho and Oregon) would revert to the utility.

The Company requests the Commission approve the Company's proposed Transition Plan, the accounting and ratemaking treatment, and such other approvals as may be necessary related to the natural gas procurement functions of Avista Utilities on or before April 13, 2004.

Questions regarding this filing should be directed to Liz Andrews at (509) 495-8601.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President of State & Federal Regulation

Enclosures

C: Attached service list

Avista Utilities
Transition Plan for Benchmark Mechanism

<u>Introduction:</u>

1. Under the proposed Transition Plan, the Natural Gas Benchmark Mechanism (Benchmark Mechanism) and Schedule 163 would terminate effective April 30, 2004. For accounting purposes it will be important to terminate at the end of a calendar month.

2. With regard to the Transition Plan, the Commission stated in its Order at paragraph 89 that:

   > "… it acknowledges the Idaho and Oregon arrangements, leaving room for discussions of parties that develop a transition that coordinates with other Avista operations and provides the least disruption to the company and its ratepayers."

   In addition, the Commission stated at paragraph 91 and again at paragraph 111:

   > "In developing the schedule for transition, the parties may consider that the Mechanism as it currently exists in Oregon and Idaho expires in March 2005. The Commission will consider a further extension of the expiration date, if necessary, depending on the plan we approve for transition of the Mechanism."

3. Recognizing that the Transition Plan should be one that "provides the least disruption to the company and its ratepayers," the proposed Plan would terminate the Benchmark Mechanism in Washington in the near-term, while attempting to avoid the inefficiencies during the Transition Period associated with having part of the procurement functions at Avista Energy (Idaho and Oregon) and part of the functions at Avista Utilities (Washington). To illustrate this point:

   a. With regard to transportation (especially), if the execution of transactions were to be immediately transferred back to the utility, the utility does not yet have trained staff in place, nor does the utility have adequate counterparty contacts to properly optimize available pipeline transportation through capacity releases and off-system sales. The proposed Transition Period would provide time to hire additional staff and train them, so that they would be fully prepared to begin execution at the end of the Transition Period.

   b. The staff positions necessary to perform the natural gas procurement functions require highly trained individuals with respect to the natural gas commodity markets, pipeline transportation systems, the utility's specific system, available storage facilities and related requirements, and the utility's retail loads for each season of the year, among other things. It will likely take a minimum of several months to identify, interview and hire these individuals, and additional months to train them on Avista's system and load characteristics. During the Transition Period one or more of the utilities' employees would be located with Avista Energy in order to train them in the operations and prepare them for the April 1, 2005 transfer.

c. The transportation assets and supply portfolio are operated as a pool to gain efficiencies. If the Washington operations are separated from the Idaho/Oregon operations, it would result in inefficiencies and increased costs to customers. For example, the demand diversity across Avista's whole system allows the Company to project a system peak day that is lower than the sum of the design peak in each state, because the peak day does not occur on a coincident basis. As a second example, the pipelines allow the Company to consolidate system imbalances for all states.

Details of Proposed Transition Plan:

4. Termination of Schedule 163 and the Benchmark Mechanism: The current Benchmark Mechanism and Schedule 163 would terminate effective April 30, 2004. The proposed Transition Period would be May 1, 2004 through March 31, 2005. During the proposed Transition Period, the Utility would continue to consult with and draw on the expertise of Avista Energy, however, the management and decision-making related to the natural gas procurement functions would reside with Avista Utilities, under the Manager of Gas Supply. The execution of transactions would be conducted by Avista Energy. There would be no incentive-sharing (i.e., 80%/20%). All costs and benefits associated with commodity, Jackson Prairie (JP) Storage, transportation and basin optimization would go to Avista Utilities' customers. Avista Energy would only receive a management fee to cover a portion of the costs it occurs in providing this service during the Transition Period, as set forth below.

5. Incentive Sharing Eliminated: No Sharing of costs or benefits by Avista Energy, including:

   a. No sharing of benefits associated with:
      i. Commodity transactions, including basin optimization;
      ii. Storage summer/winter differential; and
      iii. Transportation – Capacity Release/Off-System Sales.

   b. No sharing of costs associated with:
      i. Intra-month load and price volatility; and
      ii. Miscellaneous risks, e.g., currency, premium for physical delivery, nomination errors, counter-party risk, operational flow orders or entitlement.

6. Commodity: Under Avista Utilities' direction, Avista Energy would purchase a portion of the Utilities' natural gas requirements months in advance, some at first of month (FOM) index, along with daily purchases and sales (including basin optimization) and the use of storage to balance load. The decision to use storage to cover load versus purchasing from the daily market would be made by Avista

Utilities. All costs and benefits associated with the commodity costs to serve the utility's load, including basin optimization, would be billed or credited to utility customers.

7. Storage: Under Avista Utilities' direction, Avista Energy would inject and withdraw storage providing the winter/summer price differential and reliability of peak day demand coverage. All costs and benefits associated with the storage transactions would be billed or credited to utility customers.

8. Transportation: Under Avista Utilities' direction, Avista Energy would optimize available pipeline transportation through capacity releases and off-system sales. All costs and benefits associated with these transactions would be billed or credited to utility customers.

9. Management Fee: Avista Utilities would pay Avista Energy a management fee of $75,000 per month during the Transition Period for the services provided, which would be included in the PGA costs. The purpose of the fee would be to compensate Avista Energy for a portion of their costs such as employee labor and associated support costs and credit and banking costs, as shown in the table on Page 32 of the Commission's Sixth Supplemental Order.

10. Training/Misc.: During the transition period, Avista Utilities would complete the tasks necessary to bring the gas procurement functions back within the utility, i.e. hiring and training of employees, pipeline, storage and third party supplier notifications of change in contract relationships, development and documentation of internal administrative procedures, etc.

11. Other Jurisdictions: The Benchmark Mechanism terminates in Idaho and Oregon March 31, 2005. Effective April 1, 2005 execution of natural gas procurement services for all three states (Washington, Idaho and Oregon) would revert to the utility.

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 150

PURCHASE GAS COST ADJUSTMENT - WASHINGTON

APPLICABLE:

To Customers in the State of Washington where Company has natural gas service available.

PURPOSE:

To pass through increases or decreases in natural gas costs to become effective as noted below. Additional gas cost changes are also shown on Schedule 156. The rate adjustments shown on this Schedule and Schedule 156 must be added together to determine the net gas cost change.

RATE:

(a) The rates of gas Schedule 101 is to be decreased by 0.000¢ per therm in all blocks of these rate schedules.
(b) The rates of gas Schedules 111 and 112 are to be decreased by 0.000¢ per therm in all blocks.
(c) The rates of gas Schedules 121 and 122 are to be decreased by 0.000¢ per therm in all blocks.
(d) The rates of interruptible Schedules 131 and 132 are to be decreased by 0.000¢ per therm in all blocks.
(e) The rates of transportation Schedule 146 are to be decreased by 0.000¢ per therm in all blocks.

WEIGHTED AVERAGE GAS COST:

The Company's weighted average cost of gas is shown on Schedule 156.

BALANCING ACCOUNT:

The Company will maintain a Purchase Gas Adjustment (PGA) Balancing Account whereby monthly entries into this Balancing Account will be made to reflect differences between the actual purchased gas costs collected from customers and the actual purchased gas costs incurred by the Company. Those differences are then collected from or refunded to Customers under Schedule 155 - Gas Rate Adjustment.

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 150 - (continued)

Additional debits or credits for Pipeline refunds or charges, Pipeline capacity release revenues and miscellaneous revenues or expenses directly related to the Company's cost of purchasing gas to meet customers' needs will be recorded in the Balancing Account.

Deferred gas costs will be determined for individual customers served under Schedules 112, 122, 132, 146, and 148, as well as for Customers that switch to or from any of these service schedules to another schedule. The deferred gas cost balance for these Customers will be based on monthly entries into the Balancing Account as described above. The deferred gas cost balance for each Customer will be eliminated by either 1) a lump-sum refund or surcharge, as applicable, or 2) an amortization rate per therm to reduce the balance prospectively. The Customer shall have the option of a lump-sum refund or surcharge or an amortization rate per therm.

The Company will compute interest on the average deferred balance of the PGA Balancing Account on a monthly basis using an interest rate based on its variable short-term borrowing cost.

Additional debits or credits for Pipeline refunds or charges and other miscellaneous revenues or expenses directly related to the Company's cost of purchasing gas to meet customers' needs will be recorded in the Balancing Account.

SPECIAL TERMS AND CONDITIONS:

The rates named herein are subject to increases as set forth in Tax Adjustment Schedule 158.

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 150

PURCHASE GAS COST ADJUSTMENT - WASHINGTON

APPLICABLE:
To Customers in the State of Washington where Company has natural gas service available.

PURPOSE:
To pass through increases or decreases in natural gas costs to become effective as noted below. Additional gas cost changes are also shown on Schedule 156. The rate adjustments shown on this Schedule and Schedule 156 must be added together to determine the net gas cost change.

RATE:
(a) The rates of gas Schedule 101 is to be decreased by 0.000¢ per therm in all blocks of these rate schedules.
(b) The rates of gas Schedules 111 and 112 are to be decreased by 0.000¢ per therm in all blocks.
(c) The rates of gas Schedules 121 and 122 are to be decreased by 0.000¢ per therm in all blocks.
(d) The rates of interruptible Schedules 131 and 132 are to be decreased by 0.000¢ per therm in all blocks.
(e) The rates of transportation Schedule 146 are to be decreased by 0.000¢ per therm in all blocks.

WEIGHTED AVERAGE GAS COST:
The Company's weighted average cost of gas is shown on Schedule 156.

BALANCING ACCOUNT: C

The Company will maintain a Purchase Gas Adjustment (PGA) Balancing Account whereby monthly entries into this Balancing Account will be made to reflect differences between the actual purchased gas costs collected from customers and the actual purchased gas costs incurred by the Company. Those differences are then collected from or refunded to Customers under Schedule 155 - Gas Rate Adjustment.

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 150 - (continued)

Additional debits or credits for Pipeline refunds or charges, Pipeline capacity release revenues and miscellaneous revenues or expenses directly related to the Company's cost of purchasing gas to meet customers' needs will be recorded in the Balancing Account. D

Deferred gas costs will be determined for individual customers served under Schedules 112, 122, 132, 146, and 148, as well as for Customers that switch to or from any of these service schedules to another schedule. The deferred gas cost balance for these Customers will be based on monthly entries into the Balancing Account as described above. The deferred gas cost balance for each Customer will be eliminated by either 1) a lump-sum refund or surcharge, as applicable, or 2) an amortization rate per therm to reduce the balance prospectively. The Customer shall have the option of a lump-sum refund or surcharge or an amortization rate per therm.

The Company will compute interest on the average deferred balance of the PGA Balancing Account on a monthly basis using an interest rate based on its variable short-term borrowing cost.

Additional debits or credits for Pipeline refunds or charges and other miscellaneous revenues or expenses directly related to the Company's cost of purchasing gas to meet customers' needs will be recorded in the Balancing Account.

SPECIAL TERMS AND CONDITIONS:

The rates named herein are subject to increases as set forth in Tax Adjustment Schedule 158.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served Avista Corporation's Natural Gas Benchmark Transition Plan upon all parties of record in Docket UG-021584, by mailing a copy thereof, postage prepaid to the following:

Ms. Carole Washburn
Executive Secretary
Washington Utilities & Trans. Commission
1300 S. Evergreen Park Sr. SW
Olympia, WA 98504

Donald T. Trotter
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Attorney General's Office
1400 S. Evergreen Park Drive SW
Olympia, WA 98504

Robert W. Cromwell, Jr.
Office of the Attorney General
Public Counsel Section
900 Fourth Avenue #2000
Seattle, WA 98164

Dated at Spokane, Washington, this 12th day of March 2004.

Patty Olsness

Patty Olsness