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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. <u>Other Jurisdictions:</u> 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
Vice President of State & Federal Regulation

Enclosures

C: Attached service list