BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION D/B/A AVISTA UTILITIES, Respondent.	DOCKET NO. UG-021584 RESPONSE ON BEHALF OF COMMISSION STAFF TO AVISTA'S COMPLIANCE FILING AND PROPOSED TRANSITION PLAN FOR THE BENCHMARK MECHANISM

<u>Summary</u>:

1 Staff concurs with the compliance tariff filing and transition plan proposed by Avista.

<u>Background</u>:

2 On March 12, 2004, Avista filed tariffs and a "transition plan" in response to the Commission's Sixth Supplemental Order Rejecting Benchmark Mechanism Tariff ("Order") in this docket.

3 Avista's filing includes revisions to Tariff Schedules 150 and 150A. Revisions to these tariffs have the principal effect of removing all language referring to Avista's

Benchmark Mechanism Schedule 163. The effective date of Schedule 150 and 150A (May 1, 2004) coincides with the requested termination date of Avista's Benchmark Mechanism Tariff Schedule 163 (April 30, 2004).

4 In its Order, the Commission permitted the existing Benchmark tariff to continue in effect for 60 days from the date of the Order. (Order at ¶ 111). That would contemplate a termination date of April 13, 2004. In its transition plan, Avista is effectively seeking a two-week extension of that date, so the Benchmark tariffs expire at the end of April 2004. Staff agrees that an end of month termination is more workable.

5 The elements of Avista's transition plan are:

1) Avista's Benchmark Mechanism Tariff Schedule 163 terminates effective April 30, 2004.

2) Avista Energy will still perform the gas procurement function for Avista Utilities, under the Utility's direction, until March 31, 2005, when similar Mechanisms expire in Idaho and Oregon. On April 1, 2005, the gas procurement function will revert to the Utility.

3) The Mechanisms in effect in Idaho and Oregon will not be renewed, so the gas procurement function will revert to the Utility, in total, starting April 1, 2005.

4) With two exceptions, after Schedule 163 terminates effective April 30, 2004, there will be no sharing of costs or benefits between Avista Utilities and Avista Energy; 100% of the costs and benefits will go to the Utility during the transition period. One exception: because Avista Energy would still do gas purchasing for Avista Utilities, Avista Energy would continue to incur the cost of maintaining lines of credit. At hearing in this docket, Staff agreed with the Company's calculation of $512,000 as Avista Energy's annual cost of this activity. The other exception: an annual fee of $900,000/year ($75,000/month) to be paid by Avista Utilities and to Avista Energy will remain in place to cover Avista Energy's costs, such as the $512,000 annual carrying costs on the credit lines just described, plus the Avista Energy's labor/expertise to carry out the gas procurement and capacity management functions, and to provide training to the Utility's new gas procurement employees through March 2005.

Discussion:

6 Staff has confirmed with Avista that it is possible for Avista Utilities to completely take over the gas procurement function for Washington operations within 60-90 days of termination of the Mechanism in this state. The issue is whether that would be in the best interest of the customers in this state, given the continuation of Benchmark Mechanisms in Oregon and Idaho.

7 In its Order, the Commission contemplated a transition approach that considers the fact that similar Benchmark Mechanisms will continue to be operated in Oregon and Idaho, until March 30, 2005. This is appropriate because Avista does not buy gas separately for each jurisdiction in which it operates. Accordingly, there are inherent difficulties presented if Avista Utilities conducts a gas procurement function for Washington operations alone, while Avista Energy conducts a gas procurement function for Oregon and Idaho.

8 As Avista states in its filing, Avista's customers benefit from the purchase of gas for all three jurisdictions combined, by taking advantage of the load diversity benefits, *etc*. If gas were procured for Washington alone, those benefits would be lost.

9 Staff believes there would be other inefficiencies associated with having Washington's gas procurement managed by Avista Utilities, while Idaho and Oregon's gas procurement was managed by Avista Energy. A prime example regards pipeline balancing. In total, the Utility is required to be in balance on the pipeline every month. This requires a coordination of the nomination process with actual purchases and deliveries on a daily basis. If Avista Energy is managing Idaho and Oregon's part of the transportation, and the Utility is managing the Washington part, each company could cause a penalty or at least increased costs due to buying or selling gas just to get into balance, when in total, the system may already be in balance.

10 The Company's proposed transition plan also has operational advantages. It avoids a "rush-rush" hiring process for new gas procurement employees at Avista Utilities. It avoids the problem of having new employees with little or no time to learn the Utility's specific operations and needs. It also avoids the potential increased costs if these employees need time to develop contacts with other participants in the relevant gas markets.

11 In short, an immediate splitting of the gas procurement function between the jurisdictions and companies makes operating requirements tighter, and a transition more difficult, resulting in reduced flexibility and potentially higher costs.

Recommendation:

12 Staff recommends the Commission allow the tariff revisions to Schedule 150 and 150A to become effective as filed, and accept Avista's proposed transition plan for the following reasons:

1) The Order shows that if the utility were doing the gas procurement, $1.4 million of additional benefits would go to customers (*see* chart on page 32 of Order). Under Avista's proposed transition plan, those benefits go to customers.

2) The Order rejects Avista's request to extend the Benchmark tariff. Under Avista's proposed transition plan, the Benchmark tariff terminates, effective April 30, 2004.

3) The Order allows the parties to consider the Mechanisms in Idaho and Oregon and to recommend an approach that is the least disruptive to the Utility and its ratepayers. Avista's proposed transition plan reflects this concern by avoiding the inefficiencies listed above, and creating an opportunity for a smooth transition.

4) The proposed annual fee is not excessive, in view of the fact that Avista Energy will incur a cot of $512,000 annually to maintain the credit lines for the Utility's purchases, and all the other benefits that flowed to Avista Energy under the Mechanism are eliminated.

DATED this 18th day of March, 2004.

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