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AVISTA
Corp.

March 26, 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 –Avista's Response to Public Counsel's Opposition to Avista's Compliance Filing and Proposed Transition Plan for the Natural Gas Benchmark Mechanism

Dear Ms. Washburn:

Enclosed for filing with the Commission are twelve copies of the Company's Response to Public Counsel's Opposition to Avista's Compliance Filing and Proposed Transition Plan for the Natural Gas Benchmark Mechanism for filing in the above-entitled case.

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

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State & Federal Regulation

Enclosures

C: Attached service list

CERTIFICATE OF SERVICE

I hereby certify that I have this day served Avista's Response to Public Counsel's Opposition to Avista's Proposed 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
Senior Counsel
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 26th day of March 2004.

Patty Olsness

Patty Olsness

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 AVISTA'S RESPONSE TO PUBLIC COUNSEL'S OPPOSITION TO AVISTA'S COMPLIANCE FILING AND PROPOSED TRANSITION PLAN FOR THE BENCHMARK MECHANISM

Summary:

1 Avista disagrees with the comments and conclusions drawn by Public Counsel regarding the Company's compliance tariff filing and proposed Transition Plan filed with the Washington Utilities and Transportation Commission (WUTC) on March 15, 2004. The Company respectfully requests the Commission accept Avista's compliance tariff filing and Transition Plan as proposed by the Company, and as recommended for approval by the Commission Staff in their response to the Commission on March 18, 2004.

Background:

2 On March 19, 2004, Public Counsel filed its opposition comments regarding

Avista's compliance tariff filing and Transition Plan for the Benchmark Mechanism. In Public Counsel's comments they argue that the Company's proposed Transition Plan does not comport with the Commission's Sixth Supplemental Order (Order) issued February 13, 2004, that the Transition Plan can be accomplished in a more timely fashion, and that the proposed $900,000 management fee is not supported.

3 Several arguments made by Public Counsel in their comments repeat issues raised and discussed at hearing in this matter or were fully explained in the Company's Transition Plan, and therefore will not be repeated here. However, the Company wishes to respond to some of the arguments and comment on Public Counsel's recommendations.

Discussion

1. Avista's plan does comport with the Sixth Supplemental Order.

4 Public Counsel asserts that the Company's Transition Plan does not comport with the Commission's Order because it inappropriately delays the transition to the Utility of the gas procurement functions and that the Company asserted at hearing that the transition could be performed over a two-month period.

5 While Public Counsel is correct that it would be possible to perform the transition over a shorter period of time, the Company believes such an immediate transition would not be in the best interest of its customers. The Company's Plan avoids the potential inefficiencies and increased costs to customers in all its jurisdictions

(Washington, Idaho and Oregon) and provides adequate time for hiring, training and transition of new employees, creation of adequate counterparty contacts, and credit facilities, etc.

6 The Commission also recognized the possible conflict with the Company's other jurisdictions (Idaho and Oregon) in its Order, by stating it would consider a Transition Plan which coordinates with Avista's other operations and provides the least disruption to the Company and its ratepayers. (Order, ¶ 89) Avista's plan provides the least disruption to its jurisdictions, terminates the Benchmark Mechanism and Schedule 163 on April 30, 2004, transfers all Washington benefits and costs of the Mechanism to its Washington customers, transfers the gas procurement functions in <u>all jurisdictions</u> to the Utility by April 1, 2005, and therefore does comport with the Commission's Order.

7 With regard to the Company's other jurisdictions, Public Counsel asserts the Idaho and/or Oregon Commissions may decide, based upon the result in Washington, to review or terminate the Mechanism in their jurisdictions sooner than March 31, 2005. The February 2002 Idaho Order, *In the Matter of Avista Utilities' Application for Approval of Modifications to its Natural Gas Benchmark Mechanism*, Case No. AVU-G-01-3, Order No. 28941, ("Idaho Order") at page 7, stated, "The Commission reserves the right to review and modify the Benchmark Mechanism as necessary after reviewing and analyzing the first year's results *[<u>April 1, 2002 through March 31,2003</u>]* and/or issuance of a final ruling by the Washington Commission." (emphasis added.) To date neither jurisdiction has opened an investigation, nor does the Company have any knowledge of

interest in doing so. If however, either Commission would request an earlier termination date, the proposed transition period could be revisited at that time.

2. <u>Avista's $900,000 annual management fee is supported by the evidence.</u>

8 Public Counsel in their comments recognizes that "Avista Energy would no doubt incur costs during the transition period (such as credit costs, labor, etc.)," but asserts the proposed Management fee of $900,000 was part of a package of compensation for Avista Energy and therefore "does not believe substantial evidence exists in the record for the Commission to reach a conclusion" regarding the actual costs of these components.

9 Avista disagrees, and in fact, as noted on page 24 of the Order, the Commission and Commission Staff accepted the Company amounts calculated for the cost of credit of $512,000, and employee (loaded labor plus support costs) of $408,500, totaling $920,500. The proposed management fee of $900,000 annually or $75,000 per month is, therefore, actually less than the figures referred to above. In addition, it serves to compensate Avista Energy for its expertise in carrying out the procurement and capacity management functions plus their training of the Utility's new gas procurement employees through March 2005.

10 Public Counsel also asserts that during the hearing, Avista Energy employee Michael D' Arienzo stated the management fee includes compensation to Avista Energy for risk it carries on behalf of Avista Utilities as well as compensation to balance the "sharing" proposed by the Company. On the contrary, the Company made it quite

clear at hearing, that the evidence demonstrated that the proposed management fee filed with its case was to compensate Avista Energy for <u>only a portion</u> of the total costs absorbed by Avista Energy (i.e. credit, currency, employee labor, counter party risk, etc.) (Tr. p. 205, l.3-25.) Therefore, the Company believes the proposed management fee of $75,000 per month paid to Avista Energy for its services during the transition period is supported by evidence to this case.

3. <u>Recommendations by Public Counsel</u>

11 Public Counsel recommends the Commission adopt a 60-day transition period to return the gas procurement functions to the Utility and direct that the Transition Plan provide for cost-based reimbursement for all costs incurred by Avista Energy during the transition period.

12 As already discussed above, although the recommended time period would be possible, Avista does not believe this short time frame is in the best interest of its customers. To rush the gas procurement function transfer to the Utility would only serve to cause operational inefficiencies and increase costs to customers in all of Avista's jurisdictions. For example, 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.

13 In addition, the transportation assets and supply portfolio are operated as a pool to gain efficiencies. For example, the pipelines allow the Company to consolidated system imbalances for all states and 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.

14 The proposed transition period would provide time to hire and train additional staff, so that they are fully prepared to begin execution at the end of the transition period, and to transfer the gas procurement functions of all jurisdictions at once, continuing the efficiencies earned from a combined system.

Conclusion

15 The Company respectfully requests the Commission reject Public Counsel's recommendations, and accept Avista's compliance tariff filing and Transition Plan as proposed by the Company, and as recommended for approval by the Commission Staff in their response to the Commission on March 18, 2004.

RESPECTFULLY SUBMITTED this 26th day of March, 2004.

AVISTA CORPORATION

By: ____________________
David J. Meyer
Vice President & Chief Counsel for
Regulatory & Governmental Affairs