

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	DOCKET NO. UG-021584
)	
Complainant,)	
v.)	SEVENTH SUPPLEMENTAL
)	ORDER EXTENDING
AVISTA CORPORATION d/b/a)	EXPIRATION OF BENCHMARK
AVISTA UTILITIES,)	MECHANISM TO APRIL 30,
)	2004; APPROVING
Respondent.)	COMPLIANCE FILING
.....)	

***Synopsis:** The Commission extends the expiration date for Avista's current Benchmark Mechanism from April 15 to April 30, 2004 and approves Avista's proposed compliance plan for terminating the Benchmark Mechanism and transferring its gas supply procurement and management functions from Avista Energy to Avista Utilities.*

I. MEMORANDUM

1 Proceeding. Docket No. UG-021584 involves a tariff filed by Avista Corporation d/b/a Avista Utilities (Avista)¹ with certain tariff revisions that would modify and extend Avista Tariff Schedule 163, Avista's "Natural Gas Benchmark Mechanism" (Benchmark Mechanism) for two years. The Benchmark Mechanism (current and proposed) establishes the natural gas costs for Purchased Gas Adjustment (PGA) deferral purposes.

¹ Avista Corporation operates a regulated utility business under the name Avista Utilities. Avista Energy is a wholly owned subsidiary of Avista Capital, Inc. Avista Capital Inc. is a wholly owned subsidiary of Avista Corporation. In this Order, we refer to "Avista" as the Corporation as a whole, e.g. it is "Avista" that filed the initial petition. "Avista Energy" refers to the affiliate that operates the Benchmark Mechanism currently. "Avista Utilities" refers to the regulated utility

2 **Appearances.** David Meyer, attorney, Spokane, Washington, represents Avista. Robert Cromwell, Assistant Attorney General, Seattle, Washington, represents Public Counsel. Donald T. Trotter, Assistant Attorney General, Olympia, Washington, represents the Commission.

3 **Background.** Avista Energy currently procures natural gas for Avista Utilities under the Natural Gas Benchmark Mechanism (Benchmark Mechanism or Mechanism) included in its Tariff No. 163. The Benchmark Mechanism is intended to give Avista Energy an incentive to procure reliable, least cost gas for Avista Utilities' customers.

4 On November 29, 2002, the Commission suspended Avista's proposed Benchmark Mechanism tariff; extended the existing Tariff No. 163 until January 29, 2004; and set the matter for hearing.

5 An evidentiary hearing took place on December 15-16, 2003, before Chairwoman Marilyn Showalter, Commissioners Richard Hemstad and Patrick Oshie, and Administrative Law Judge Theodora Mace.

6 On February 13, 2004, the Commission entered its Sixth Supplemental Order requiring Avista to terminate the Benchmark Mechanism. The Commission further required Avista to develop a plan for transition of the gas supply procurement and management functions performed by Avista Energy under the Mechanism back to Avista Utilities. Avista circulated its proposed transition plan to Commission Staff and Public Counsel and filed it with the Commission on March 15, 2004.

7 Commission Staff supports the plan. Public Counsel objects to the plan. Staff's and Public Counsel's positions are described below.

8 The Commission, for reasons more fully stated below, finds Public Counsel's objections to be without merit. Overall, the proposed transition plan complies with the Sixth Supplemental Order which required Avista to transfer gas supply procurement and management from Avista Energy to Avista Utilities so as to avoid harm to ratepayers, and if necessary, in coordination with the expiration of the Benchmark Mechanism in Idaho and Oregon.

9 **Avista's proposed transition plan.** Under the proposed transition plan, Avista Energy would continue to execute gas procurement transactions for Avista Utilities until March 31, 2005, but Avista Utilities alone would determine what transactions were to be executed. Avista Utilities would pay Avista Energy a fee of \$75,000 per month, or \$900,000 annually, to execute transactions during the transition period.

10 All sharing of benefits and costs between Avista Energy and Avista Utilities from the operation of the current Mechanism would terminate on April 30, 2004,² except that Avista Energy would continue to cover the cost of maintaining lines of credit.³

11 On April 1, 2005, the performance of all gas procurement activities in Washington, Idaho and Oregon would revert back to Avista Utilities from Avista Energy, and the Benchmark Mechanism would cease to operate in each of those states.

12 **Commission Staff.** Commission Staff recommends that the Commission adopt Avista's transition plan. Commission Staff argues that Avista's proposal complies with the Sixth Supplemental Order and is in the best interests of the

² Avista requests that the Commission extend the expiration date of the current Benchmark Mechanism, established in the Sixth Supplemental Order, of April 15, 2004 to April 30, 2004 to ease accounting difficulties that might result from mid-month termination.

³ Exhibit 51T showed the cost of the line of credit to be \$512,000.

company's ratepayers because it will allow Avista to coordinate a smooth reversion of the gas procurement function to Avista Utilities in all three jurisdictions it serves. Staff points out that under the current Mechanism, Avista does not procure gas separately for each jurisdiction, but rather Avista Energy procures the gas on a combined portfolio basis. Should the Mechanism terminate in one jurisdiction, Avista Utilities' customers would no longer benefit from management of load diversity across the combined operations.

- 13 With regard to the payment to Avista Energy, Staff points out that the annual cost of maintaining lines of credit alone is \$512,000. Avista Energy is shouldering this cost under the plan. Staff also indicates there would be other transition-related costs Avista Energy would bear. Taking these costs as a whole, Commission Staff contends that payment to Avista Energy of \$75,000 monthly, or \$900,000 annually, is justified.
- 14 **Public Counsel's objections.** Public Counsel states that Avista testified it would be able to revert Benchmark Mechanism functions back to Avista Utilities in two months if required to do so. Public Counsel objects that Avista's transition proposal is for a much lengthier one-year period and does not comply with the Sixth Supplemental Order. Moreover, allowing Avista until March 31, 2005 to unwind the current Mechanism might foreclose the Commission from ending the transition earlier should Idaho decide to terminate the Mechanism in Idaho earlier than March 31, 2005.⁴ Public Counsel recommends a 120-day transition period, measured from the date of the final order.
- 15 Public Counsel also objects to the \$75,000 monthly (\$900,000 annually) payment to Avista Energy during the transition period because there was little support in the evidentiary record as to the costs covered by such a payment. Public Counsel

⁴ *Public Counsel Opposition at 4; see, also 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 Public Utilities Commission (February 1, 2002) at 7.*

recommends that Avista Energy be compensated only for its documented actual costs, determined at the close of the 120-day transition period.

- 16 **Discussion and decision.** The Commission is persuaded that the transition plan proposed by Avista is reasonable and complies with the Sixth Supplemental Order. In the Sixth Supplemental Order, the Commission explicitly contemplated a transition period that might extend to March 31, 2005.⁵ Since the gas procurement functions in Washington, Idaho and Oregon are all intertwined with Avista Energy's current operation of the Benchmark Mechanism, ratepayers will benefit from cost efficiencies associated with a coordinated termination and transition of Mechanism functions back to Avista Utilities in all three states.
- 17 The Commission regards the payment of \$75,000 monthly (\$900,000 annually) to Avista Energy as reasonable in light of the costs it will incur to maintain credit lines and to conduct the transition of the Mechanism back to Avista Utilities.
- 18 Finally, we are persuaded that should Idaho decide to terminate the Mechanism in that state sooner than March 31, 2005, this Commission has options available to allow it to address the ramifications of Idaho's decision for this state.
- 19 For these reasons, we approve Avista's proposed transition filing as being in compliance with our Sixth Supplemental Order.

II. ORDER

- 20 THE COMMISSION ORDERS That the expiration date for the current Avista Benchmark Mechanism is extended from April 15 to April 30, 2004 and approves Avista's compliance filing proposal for the transition of the Benchmark

⁵ Sixth Supplemental Order at ¶¶ 91, 111, 152.

Mechanism back to Avista Utilities by March 31, 2005, subject to re-examination of the transition period based on regulatory action in Idaho or Oregon.

Dated at Olympia, Washington, and effective this ____ day of April 1, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner