AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION
Annual Filing to Review Deferrals (ERM)

JURISDICTION:	Washington	DATE PREPARED:	8-13-03
CASE NO:	UE-011595	WITNESS:	Dick Storro
REQUESTER:	Public Counsel	RESPONDER:	Bill Johnson
TYPE:	Data Request	DEPT:	Energy Resources
REQUEST NO:	164	TELEPHONE:	(509) 495-4046

REQUEST:

In making the fixed price gas sales described in the response to WUTC DR-178C, was it Avista's practice to make the sale as soon as it detected the existence of a forward spark spread arbitrage opportunity? What steps did Avista take to ensure that it obtained the maximum price available for its excess natural gas and/or for the forward spark spread sales? What policies, procedures, and analysis did Avista have in place to assess whether the spark spread arbitrage opportunity would get better if Avista waited to execute the gas sale? In this context, how did Avista decide when to execute the gas sale? Please provide all data, analysis or evaluation performed by Avista to make this determination.

RESPONSE:

When making forward purchases or sales the liquidity of the market place is a factor. Natural gas typically transacts in three forward time periods; 1) Annual – November through October; 2) Winter – November through March; and 3) Summer – April through October. Power typically transacts in Quarterly periods, January through March, April through June, July through September and October through December or for the calendar year January through December. As the time frame shortens to the forward period of the transaction, monthly transactions are more readily available for both gas and electric. The Company attempts to transact when there is sufficient market liquidity to obtain numerous price quotes and counterparties.

The purpose of the gas sales is to minimize net power supply expense. Net power supply expense is a summation of power purchase expense, thermal and natural gas fuel expense, including both fuel consumed and fuel not consumed, and sales for resale revenues. The Company's goal is not necessarily to maximize the revenues from gas sales but to minimize overall net power supply expense. This is accomplished by comparing the market price of gas and electricity and choosing the energy source that minimizes overall cost.

Unless the Company needs to change its load resource position, then a sale of gas must be accompanied by a purchase of electricity at the same time. When the Company did sell gas and not purchase electricity it was done because the Company needed to eliminate length in its load/resource position and the revenue from selling the gas exceeded the revenue from keeping the gas for generation and selling the electricity. In summary, the sale of gas is driven by a goal of minimizing total net expense based on the relationship between electric and gas prices and not by a goal of maximizing gas sales revenue.

The gas sales the Company made lowered the total net power supply expense at the time the transactions were executed. The Company does not conduct "hindsight" analyses to determine if the timing of each sale was perfect.