

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-991606
DOCKET NO. UG-991607

Exhibit No. 273 (DMF-5)
Witness: Don M. Falkner, Avista Corp.

WUTC

DOCKET NO. UE-991606

EXHIBIT # 273

ADMIT

W/D

REJECT

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 163

Natural Gas Benchmark Mechanism

APPLICABILITY:

The Natural Gas Benchmark Mechanism described herein shall establish the natural gas costs for Purchase Gas Adjustment (PGA) deferral purposes on a monthly basis. The difference between the monthly Benchmark Mechanism costs and the costs included in Customers' rates for the respective month will be deferred. This difference in gas costs shall be refunded or surcharged to Customers under Schedule 155 - Gas Rate Adjustment.

PURPOSE:

The Benchmark Mechanism will provide an incentive to the Company to minimize natural gas costs, and will provide additional natural gas cost savings for Customers. Under the Benchmark Mechanism, Avista Energy will act as agent for Avista Utilities to manage the Company's natural gas storage and existing transportation and supply contracts. Benefits to Avista Energy from the Benchmark Mechanism are performance based and are dependent on the success of Avista Energy in managing natural gas supplies, transportation and storage.

TERM:

The Benchmark Mechanism shall be implemented on an experimental basis for approximately a two-year and nine-month period beginning on the first day of the calendar month following receipt by the Company of necessary regulatory approvals and execution of the Agency Agreement between the Company and Avista Energy. The experiment will end on March 31, 2002. The Company may seek continuation of the authorization for the Benchmark Mechanism with six months notice prior to the end of the experimental term.

DEFINITIONS:

1. Weighted Average Index Price: The weighted average of the published index prices for the following three supply basins: AECCO-C (Alberta), Sumas (British Columbia), and Rockies (Domestic). The price at each basin shall be the actual "first of the month" prices as reported in *Canadian Gas Price Reporter* and *Inside FERC Gas Market Report* for the applicable supply basins. The published index prices shall be weighted with a minimum of 44% AECCO-C, 18% Sumas, and 18% Rockies. Each year the remaining 20% shall be assigned to one or more of the three supply basins for the November 1st to October 31st twelve-month period, as described below. In the application of the floating 20% to supply basins, the resulting total percentage assigned each basin shall be subject to any physical constraints to transport that quantity of natural gas from the basin to the

Issued April 26, 1999

Effective June 24, 1999

Issued by Avista Corporation

By

Thomas D. Durbich

Manager, Rates & Tariff Administration

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 163 - continued

Company's system. The Company shall notify the Commission in writing, with justification, of the assignment of the 20% to supply basins on or before June 1st of each year. The Commission shall review the proposed assignment and notify the Company of its decision on or before July 1st of each year. The initial assignment for the 20% floating percentage, through October 31, 2000, shall be to AECO-C, resulting in basin weighting percentages of 64% AECO-C, 18% Sumas, and 18% Rockies.

2. Index Adder: A fixed amount, expressed in cents per dekatherm, that shall be added to the Weighted Average Index Price. The Index Adder shall be fixed at \$0.0500 per dekatherm for the term of the experiment.

3. Jackson Prairie (JP) Storage Benchmark Schedule (JP Cycle): Customers receive cost savings from Company injections of natural gas into JP Storage during the, generally, lower-cost spring and summer months and withdrawals of gas during the higher-cost winter months. The following JP Storage injection and withdrawal schedule shall be established to continue to provide Customers with the benefits associated with JP Storage. These figures represent system numbers (Washington and Idaho). Washington Customers shall receive an allocated share based on a system contract demand allocator.

Injections (Dekatherms): May 221,000, June 510,000, July 510,000, August 510,000, September 331,500

Withdrawals (Dekatherms): November 85,000, December 510,000, January 722,500, February 425,000, March 255,000, April 85,000

The cost of natural gas for injections, per the Benchmark Schedule, shall be the Weighted Average Index Price for the respective month, plus the Index Adder. Avista Utilities shall pay Avista Energy for the cost of gas added to inventory on a monthly basis, per the Benchmark Schedule, and will receive a credit from Avista Energy for withdrawals under the Benchmark Schedule.

Upon implementation of service under this Schedule 163, any actual balance of natural gas in JP Storage shall be assigned to Avista Utilities' Customers. The JP Storage Benchmark Schedule for the first year shall be adjusted on a prorata basis to reflect the beginning balance. If the management of JP Storage is transferred back to the utility in the future, the inventory volume balance and the cost of inventory shall be transferred to Avista Utilities per the balances under the JP Storage Benchmark Schedule.

4. Benchmark JP Off-System Sales: Off-system short-term sales of natural gas and capacity related to JP Storage. The Benchmark Off-System sales benefits for Washington Customers shall be fixed at \$660,000 per year for the term of the experiment. For the initial partial-year ending March 31, 2000, the Benchmark shall be prorated based on the number of months in the period.

Issued April 26, 1999

Effective June 24, 1999

Issued by Avista Corporation
By

Thomas D. Dursich

Manager, Rates & Tariff Administration