

WN U-29

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 described herein shall become effective April 1, 2003, and shall remain in effect until January 29, 2004. If the mechanism is terminated, any outstanding hedging obligations will be assigned to the Utility

**DEFINITIONS:**

1. First of The Month (FOM) Weighted Average Index Price: The weighted average of the published index prices for the following three supply basins: AECO-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 50% AECO-C, 18% Sumas, and 18% Rockies. Each year the remaining 14% shall be assigned to one or more of the three supply basins for the following November 1<sup>st</sup> to October 31<sup>st</sup> twelve-month period, as described below. In the application of the floating 14% 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

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Company's system. However, the percentage assigned to Sumas or Rockies can not exceed 25%. The Company shall notify the Commission in writing, with justification, of the assignment of the 14% to supply basins on or before January 1<sup>st</sup> of each year. The Commission shall review the proposed assignment and notify the Company of its decision on or before February 1<sup>st</sup> of each year. The initial assignment for the 14% floating percentage, through October 31, 2002, shall be to AECO-C, resulting in basin weighting percentages of 64% AECO-C, 18% Sumas, and 18% Rockies.

2. Gas Daily (GD) Weighted Average Index Price: The weighted average of the published daily index prices for the three supply basins, AECO-C (Alberta), Sumas (British Columbia), and Rockies (Kern River/Opal plant) will be calculated on the same basin percentages as the FOM Weighted Average Index Price. The price at each basin shall be the midpoint "Gas Daily" prices as reported in the McGraw Hill's *Gas Daily* for the applicable supply basins.

3. Index Adder: A fixed amount, expressed in cents per dekatherm, that shall be added to the actual cost or index price, as applicable, for all purchases. The Index Adder shall be fixed at \$0.05 per dekatherm for all volumes of gas purchased for the term of the Benchmark Mechanism.

4 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 system (WA and ID) JP Storage injection and withdrawal schedule shall be established to continue to provide Customers with the benefits associated with JP Storage.

Injections (Dekatherms): May 346,673, June 600,000, July 620,000, August 620,000, September 300,000

Withdrawals (Dekatherms): November 236,670, December 620,000, January 775,000, February 700,000, March 155,000

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.

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.

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5. Pipeline Capacity Release/Off-System Sales includes net revenues associated with pipeline capacity releases and sales of natural gas for resale using the Company's transportation system.

6. Administrative Cost Savings: Through consolidation of natural gas procurement operations, the Company has achieved administrative cost savings. The Benchmark Mechanism shall flow these benefits through to sales Customers. The level of Administrative Cost Savings shall be fixed at \$80,600 on an annual basis, or until the cost savings are reflected in rates through a rate proceeding.

7. Operational Flow Orders (OFO): Operational Flow Orders are issued by the pipeline and direct shippers to flow gas on particular segments of the pipeline to maintain certain physical flow characteristics in order to ensure operational stability. Failure to follow OFO's results in substantial penalties.

**CALCULATION OF MONTHLY GAS COSTS FOR DEFERRAL PURPOSES:**

The Company shall maintain a PGA Balancing Account whereby monthly entries into this Balancing Account shall be made to reflect differences between the actual Purchase Gas Costs collected from customers and the Purchase Gas Costs determined under this Schedule 163 - Natural Gas Benchmark Mechanism as follows:

1. Commodity Costs: Gas purchases to serve customer usage will be made utilizing four pricing mechanisms (Tiers): (1) fixed price purchases including a predetermined level of storage withdrawal from JP, (2) first of month (FOM) Weighted Average Index Price, (3) Gas Daily (GD) weighted average index price and (4) peaking service supplied from early withdrawal of Jackson Prairie (JP) and from Plymouth Storage facilities. The System (WA/ID) daily volumes of gas that will be priced in each Tier will be predetermined for each month, based on a statistical analysis of historical customer usage. The daily volumes for each month are set forth in Table 1. Table 1 will be revised annually based on a five-year rolling analysis of customer usage. This revised table will be filed with the Commission for approval. All purchases or priced volumes included in each Tier will include the \$0.05 index adder. The total cost of all gas delivered in each Tier during a month will be the Commodity Cost for that month.

Tier 1 - Customer usage to be purchased and priced under Tier 1 - Fixed Price Purchases will include a predetermined daily level of gas each month purchased for future delivery using futures contracts or hedging instruments, and withdrawal of storage gas under the JP Storage Benchmark schedule.

Tier 2 - Customer usage to be priced at Tier 2 - FOM Weighted Average Index Price will include a minimum and maximum daily usage level for each month. All customer usage each day that exceeds the minimum level and is less than the maximum level will be priced at the FOM Weighted Average Index Price. For any days where customer usage is less than the minimum Tier 2 level and higher than the Tier 1 level, gas costs associated with the minimum daily volume will be recorded at the FOM

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Weighted Average Index Price and the difference between the minimum daily volume and actual usage will be assumed to be sold at the Weighted Average Gas Daily Index and the proceeds used to offset gas costs.

Tier 3 - Customer usage to be priced at Tier 3 – Gas Daily Weighted Average Index Price is the amount of daily usage that exceeds the maximum usage level set forth under Tier 2 and is less than the maximum usage level for Tier 3. IF actual usage exceeds Tier 3 maximum levels, the excess will be priced under Tier 3 guidelines unless the usage occurs during the period November 20<sup>th</sup> through February 10<sup>th</sup>, at that time Tier 4 pricing would apply.

Tier 4 - Customer usage that exceeds the maximum daily usage level under Tier 3 for the period from November 20<sup>th</sup> through February 10<sup>th</sup> will be supplied through the use of the Company's Jackson Prairie and Plymouth storage facilities, rather than Gas Daily, when it is economically reasonable provided such usage will not seriously hamper the availability of storage to meet estimated late winter loads. If supply is used, supply from JP will be utilized first up to the maximum capabilities of the facility. Supply from Plymouth LNG would then be utilized to meet any remaining customer usage. Supplies from these facilities will be priced at the respective inventory Weighted Average Cost for Gas of each facility. The balance of the month and the following month's JP withdrawal schedule will be adjusted to reflect any early withdrawals. At the discretion of Avista Energy, refilling of Plymouth will take place as soon as appropriate and will be priced at the current FOM index plus the Adder.

**TABLE 1: System (WA/ID) Daily volumes for each month for the period April 2002 – March 2003:**

	January	February	March	April	May	June
Synthetic - Storage Withdrawal/(Injection)	25,000	25,000	5,000	-	(11,183)	(20,000)
Fixed Price Purchase	60,000	50,000	40,000	20,000	10,000	10,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	85,000	75,000	45,000	20,000	10,000	10,000
Min Load *	93,939	82,435	48,761	26,634	30,137	32,608
FOM Low Range	116,000	105,000	79,000	51,000	42,000	42,000
Average Load *	125,573	113,481	88,438	61,700	50,687	46,113
FOM High Range (max Tier 2 Load)	135,000	122,000	97,000	72,000	59,000	50,000
Gas Daily (max Tier 3 Load**)	155,000	138,000				
Max Load *	199,350	157,082	121,889	106,893	94,515	70,172
	July	August	September	October	November	December
Synthetic - Storage Withdrawal/(Injection)	(20,000)	(20,000)	(10,000)	-	7,889	20,000
Fixed Price Purchase	10,000	10,000	10,000	20,000	30,000	60,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	10,000	10,000	10,000	20,000	37,889	80,000
Min Load *	35,275	35,700	25,124	22,888	40,521	88,735
FOM Low Range	38,000	38,000	32,000	49,000	82,000	113,000
Average Load *	40,459	39,486	37,404	56,361	94,183	126,517
FOM High Range (max Tier 2 Load)	43,000	41,000	43,000	64,000	107,000	140,000
Gas Daily (max Tier 3 Load)					132,000	167,000
Max Load *	52,630	52,306	80,829	93,432	147,000	220,000

\* Minimum, maximum and average loads for each month for the period 6/1/1997 to 7/11/2001.

\*\*Any actual loads above the max Tier 3 load will be from Jackson Prairie and Plymouth storage facilities (Tier 4) applicable Nov 20-Feb 10 if economically reasonable versus Gas Daily.

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2. **JP Storage:** During months when there are withdrawals of natural gas from JP Storage, per the Benchmark schedule, an adjustment will be made to total commodity gas costs based on the scheduled volume of gas withdrawn from JP Storage, times the difference between 1) the average inventory cost of gas in JP Storage, and 2) the Weighted Average Index Price plus the Index Adder.

3. **Pipeline Transportation and Storage Costs:** Total Company pipeline transportation and storage costs shall be included for deferral purposes. This will include all fixed and variable charges, less any variable charges incurred related to off-system sales. Avista Energy shall credit or reimburse Avista Utilities for any variable transportation or storage charges related to off-system sales.

4. **Pipeline Capacity Release and Off-System Sales Benefits:** Benefits to Customers related to the release of pipeline capacity and off-system sales using the Company's transportation shall be calculated as follows:

- a. Actual capacity release and off-system sales benefits shall be accumulated for the April through March period each year. Washington Customers shall receive all benefits up to \$5,000,000 on an annualized basis. During the period, the actual margins in excess of \$5,000,000 shall be shared 50% to Customers and 50% to Avista Energy.
- b. Actual Capacity Release margins shall be equal to the actual margin, allocable to the Washington jurisdiction, associated with the release of the Avista Utilities' (WA/ID Division) capacity on a transaction by transaction basis.
- c. Actual Off-System Sales margins shall be calculated as the actual delivered volumes moved on the Avista Utilities' (WA/ID Division) transportation to off-system parties, multiplied by the difference between the published delivery point index price and the published receipt point index price for the relevant time period, e.g., daily or monthly, net of variable transportation and fuel charges. Washington Customers shall receive an allocated share based on a system contract demand allocator.

5. **Administrative Cost Savings:** Natural gas costs shall be reduced by the fixed Administrative Cost Savings benefit of \$6,717 per month (\$80,600 annually) until these cost savings are reflected in rates through a rate proceeding.

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6. The difference between the monthly Benchmark Mechanism costs, as described above, and the costs included in Customers' rates for the respective month shall be deferred to Account 191.31 for later refund or surcharge to Customers under Schedule 155 - Gas Rate Adjustment.

7. **Contract Specific Operation Flow Order (OFO):** As a result of various segmented capacity releases in the past, the Company is exposed to contract specific OFO's on Northwest Pipeline's system from the Jackson Prairie receipt point west to east through the Columbia River Gorge.

If contract specific OFO's are imposed on the Company from JP through the Columbia River Gorge that cause Avista Energy to schedule deliveries from points west of the Gorge on any day that exceed volumes calculated by the following formula then the Company will pay Avista Energy's actual daily cost of gas for such volumes:

$((DSL - SSW) * BWP) + SSW$ . (Where DSL = daily system load, SSW = daily Synthetic Storage Withdrawal volume from Jackson Prairie Storage, BWP = basin weighting percentage from Sumas.)

If contract specific OFO's are called which would result in daily pricing Avista Energy will communicate with the Company on the impact and the Company may determine if it would be appropriate to satisfy the OFO with storage withdrawal and adjustments to forward synthetic storage schedules.

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