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May 1, 2007

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Public Utility Commission of Oregon
550 Capitol St NE – Suite 215
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Salem OR 97308-2148

Re: Docket No. UM 1282
An investigation pursuant to ORS 757.210 and ORS 757.215 to examine Avista Corp., dba Avista Utilities gas purchasing strategy

To Whom It May Concern:

Enclosed for filing please find the Brief of Stipulating Parties in Docket No. UM 1282.

Thank you for your attention.

Very truly yours,

Stephanie S. Andrus
Assistant Attorney General

Enc.
c. UM 1282 service list

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UM 1282

In the Matter of THE PUBLIC UTILITY COMMISSION OF OREGON, An Investigation pursuant to ORS 757.210 and ORS 757.215 to examine Avista Corp., dba Avista Utilities' gas purchasing strategy	)))))))))	**BRIEF OF STIPULATING PARTIES**

This Brief is being offered by the parties to the Stipulation filed in the above-captioned docket on February 9, 2007. These parties consist of Avista Utilities ("Avista" or the "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), and the Northwest Industrial Gas Users ("NWIGU") (hereinafter "Stipulating Parties"). The Citizens' Utility Board ("CUB"), representing the only other party to this proceeding, did not join in the Stipulation.

I. INTRODUCTION

This Commission commenced an investigation, on October 25, 2006, to examine Avista's natural gas purchasing strategy, and in particular the Company's level of fixed-price financial hedging for its Oregon customers as part of the Company's 2006 PGA filing. A pre-hearing conference in the Docket (UM 1282) was held on December 8, 2006, followed by a settlement conference on January 4, 2007, in which all parties to the proceeding participated: Avista, Staff, NWIGU, and CUB. Subsequent settlement conferences were held on January 12, 2007, and January 19, 2007, resulting in a Stipulation resolving all issues in the proceeding, and was entered into by all parties, with the exception of CUB.

Subsequently, the Stipulating Parties filed, on February 9, 2007, the Joint Testimony of Kenneth R. Zimmerman (Staff), Jason Thackston (Avista) and Paula Pyron (NWIGU) in support of the filed Stipulation. (Stipulating Parties Direct/100) This was followed by response testimony submitted by Lowrey Brown, on behalf of CUB, on March 16, 2007. (CUB/100) Joint Reply Testimony of the Stipulating Parties followed on March 28, 2007. (Stipulating Parties Reply/100) A subsequent pre-hearing conference was held on March 29, 2007, at which time all parties, including CUB, agreed to stipulate into the record all pre-filed testimony and exhibits and waive cross-examination. All parties also agreed to one round of simultaneous briefing due on May 1, 2007. This was memorialized in ALJ's Scott's Prehearing Conference Memorandum of March 30, 2007.

II. NATURE OF THE STIPULATION

Essentially, there are three distinct areas addressed and agreed to by the Stipulating Parties: (1) a $500,000 credit to sales service customers; (2) agreed-upon parameters regarding Avista's gas supply portfolio for the November 2007-October 2008 PGA year; and (3) an understanding with respect to the documentation surrounding the development of Avista's gas supply portfolio for the 2007-2008 PGA year.

A. $500,000 Credit. Paragraph 6 of the Stipulation provides for a one-time credit of $500,000 to Avista's PGA 2006-07 sales service customers through the current PGA deferral account as of the date the Stipulation is approved. It is expressly understood that this one-time credit does not otherwise constitute a precedent in terms of the method by which the credit was derived. As explained by the Stipulating Parties, this figure represents "a negotiated amount among the Signing Parties following the exchange of pertinent information related to the

Company's natural gas hedging practices." (Stipulating Parties Direct/100, p.3) CUB, for its part, does not take issue with this feature of the Stipulation.

B. Development of 2007-2008 Gas Supply Portfolio. Section 7 of the Stipulation reflects agreement concerning the design, preparation, implementation, and assessment of Avista's 2007-2008 gas supply portfolio (for the November 1, 2007 through October 31, 2008 delivery period). As such, it provides a "financial hedging structure for Avista's 2007 PGA portfolio that directly addresses Staff's concerns about the extent of the Company's reliance on fixed price financial hedging in its 2006 PGA portfolio." (Stipulating Parties Direct/100, p.4)

As described in the Stipulating Parties Joint Direct Testimony, for purposes of developing its 2007-2008 gas supply portfolio, Avista agrees that:

1. By February 12, 2007, Avista will provide to all parties a description of its Procurement Plan for its 2007-2008 gas supply portfolio, including the intended level of fixed-price hedging. (The description would also serve to identify and explain differences between Avista's Procurement Plan in Oregon and its other jurisdictions.) (Section 7a.)

2. Any fixed-price hedging will be procured through competitive bidding over the entire period of February through December 2007, with no more than 15% of the volumes opened to fixed-price hedging procured during any 30-day hedge window period. (Section 7b.)

3. Fixed-price hedges executed after the date of the final 2007 PGA filing will be passed through in full through the PGA deferral account. (Section 7b.)

4. Natural gas commodity costs that have not been fixed through hedges will continue to be subject to the current 90%/10% sharing under Avista's PGA mechanism. (Section 7b.)

5. Avista expects that no counterparty involved in the fixed-price hedges will account for more than 25% of the total annual volumes of fixed-price hedging for the 2007-2008 delivery period. (Section 7c.)

6. Avista reserves the flexibility to modify the aforementioned gas purchasing strategies as circumstances warrant, based on market conditions and its system needs, but will inform all parties of any such modifications as soon as possible.

As such, these provisions serve to extend the hedging period through December, for this 2007-2008 delivery period, whereas in prior years, Avista had completed its hedging by the date of its September PGA filing. Also, these provisions reflect the establishment of 30-day hedge "windows" from February through December, whereby no more than 15% of the volumes to be hedged could be procured during any such "window." As explained in the joint direct testimony of the Stipulating Parties, during 2006, these hedge "windows" were of varying durations, and the windows overlapped each other; as such, it was possible to execute hedges for two different windows on or near the same day, thereby possibly representing a substantial portion of total hedge volumes. (Stipulating Parties Direct/100, pp. 5-6)

C. Documentation Requirements. Section 8 of the Stipulation addresses the documentation surrounding Avista's development of is procurement strategy. In particular, Avista committed that by February 12, 2007, it would provide all parties with a description of its Procurement Plan. This has been done. In addition, Section 8 describes how Avista will document its procurement strategy and the development of its resource portfolio. Furthermore, documentation will be compiled with respect to each hedging transaction, which will address any deviation from its procurement plan. Finally, Section 8 provides that Avista will meet with parties to this proceeding (including CUB) after its first hedging transaction, to assure that documentation meets the needs of the parties. This has also been done.

It is important to note, however, that the Stipulation itself provides (see Section 7e.) that nothing in the Stipulation "is intended to represent or support the prudence of Avista's 2007-2008 gas supply portfolio."

III. RELATIONSHIP OF STIPULATION TO GENERIC PGA REVIEW IN DOCKET UM 1286

It should be remembered that the agreed-upon provisions with respect to Avista's gas supply portfolio apply only to the November 2007-October 2008 PGA year. The Stipulating Parties understand that workshops are presently being conducted in the generic PGA review in Docket UM 1286, which are expected to extend through August of 2007. Accordingly, the Stipulating Parties understand that any future guidance with respect to the PGA mechanism resulting from the generic review in Docket UM 1286 would not be applicable until the 2008-2009 PGA year or beyond. (See Stipulating Parties Direct/100/p. 4) Because that guidance in the ongoing generic docket may not be available until after decisions are made with respect to the November 2007-October 2008 PGA year, the Stipulating Parties recognized the need to come to agreement with respect to the 2007-2008 delivery period as part of the Stipulation. (Should, however, any terms of the Stipulation contradict a subsequent order by this Commission in UM 1286, that ruling will take precedence prospectively over the Stipulation. Moreover, nothing in the Stipulation is intended to act as precedent for UM 1286.)

IV. CUB'S OBJECTIONS TO MODIFICATIONS OF AVISTA'S PGA MECHANISM FOR 2007-2008

The "only issue of concern" to CUB relates to a certain modification of Avista's PGA mechanism for 2007-2008:

> Here, we examine only the issue of concern to CUB: the modification of Avista's PGA mechanism for 2007-2008. Without this modification, the Stipulation would be a reasonable resolution of the original issues in this docket.

(CUB/100/Brown/2) This reference to a PGA modification is with respect to an additional deferral calculation, as shown in Appendix A of the Stipulation, which would allow the Company to defer 100% of fixed-price hedges completed after the Company's final 2007 PGA filing – i.e., from September to December of 2007. As explained in the Direct Testimony accompanying the Stipulation, under the present mechanism, all prudent fixed-price hedges executed at the time of the PGA filing are fully reflected in Avista's WACOG and the associated costs are 100% recovered. The Stipulating Parties agreed that it made sense to extend the hedging period beyond the September 2007 PGA filing date. They recognize, however, that under the Company's present mechanism, it would be at risk for 10% of the difference in the actual cost of those hedges compared to the projected cost reflected in the PGA filing. Accordingly, the Stipulating Parties agreed to an adjustment to the PGA deferral account, as shown in Appendix A to the Stipulation, whereby the additional 10%, either positive or negative, of the difference between actual and projected gas costs that are hedged during this limited four month period, will be captured. (See Stipulating Parties Direct/100/p. 6) Stated differently, without this additional calculation, the Company would be "at risk to potentially absorb a substantial incremental level of gas costs under the present gas cost sharing mechanism." (See Stipulating Parties Reply/100/p. 1)

In their reply testimony, the Stipulating Parties explained why this additional deferral calculation was part of the Stipulation: Hedges that were completed prior to the annual PGA filing, and the gas costs associated with those hedges, are presently allowed to be included in the Company's WACOG filed in the PGA. The Stipulating Parties recognized that "spreading the hedges over a longer period further diversifies the natural gas portfolio and is in the long-term best interests of customers." (Stipulating Parties Reply/100/p. 2) Accordingly, this additional deferral calculation simply allows Avista to increase its hedging period from six to ten months, without being subject to additional gas cost sharing risk under its PGA mechanism. (Id.) Or, stated differently, the additional calculation simply allows the Company to defer 100% of fixed price hedges completed after the PGA filing in the same manner as currently afforded hedges completed prior to the PGA filing. As such, the Company would not be subject to less risk with this additional calculation. (Id.)

Furthermore, it is important to note that Avista has reduced its planned level of fixed price hedging from 91% of estimated average loads in 2006-07 to approximately 70% of estimated average loads for the 2007-08 PGA year. (This procurement plan has been provided to all parties in accordance with Section 7a. of this Stipulation.) This reduction in the level of hedging will increase the Company's risk under the sharing mechanism, even with the additional deferral calculation discussed above – i.e. approximately 30% of Avista's gas costs will be subject to the sharing mechanism, even with the additional deferral calculation. (This represents the difference between the current plan fixed price hedging level of 70% of anticipated average load for 2007-2008 and 100% of anticipated average load for 2007-2008.) Avista estimates that it will have completed approximately 70% of its planned hedges by the time it files the PGA in August of 2007. (Id.) Therefore, without the additional deferral calculation, "about 49% of

Avista's load (70% planned hedging x 70% completed at PGA filing) would be exposed to the sharing mechanism." (See Stipulating Parties Reply/100/p. 3) As noted in the reply testimony, Avista simply would not have agreed to the Stipulation if the additional deferral calculation had been removed because it "cannot agree to have approximately half of its projected loads exposed to the sharing mechanism in the current volatile natural gas market." (Id.)

Finally, CUB contends that, under this arrangement, Avista "would be able to play different procurement options against one another for the protection or benefit of its shareholders." (CUB/100/Brown/7) To state the obvious, the Company cannot, for its part, accurately predict a future price increase or decrease. More to the point, there are sufficient safeguards in place to assure that Avista will not "play" options against one another, as explained in the reply testimony of the Stipulating Parties. Copies of its Procurement Plan, in accordance with Section 7a. of the Stipulation, have already been provided to all parties, including CUB, even though it was not among the Stipulating Parties. This plan includes a schedule of all planned hedges and the periods within which those planned hedges will be executed. Any material changes to the plan would be fully documented and communicated with the parties, and such changes would be based upon "market conditions, not shareholder protection" as explained in the reply testimony of the Stipulating Parties. (Id.) Accordingly, there will be "transparency" with respect to all such hedging transactions, with an opportunity for all parties, including CUB to review such decisions in the subsequent PGA filing.

V. CONCLUSION

The Stipulation is the result of extensive negotiations among all parties. As with any agreement, it involves, of necessity, substantial give-and-take. The end result is a compromise on various issues that the Stipulating Parties believe is "in the public interest and results in an overall fair, just and reasonable outcome." (See Section 10 of the Stipulation)

CUB's objection is to the inclusion of an additional deferral calculation that would allow Avista to recover 100% of the cost of fixed price hedges for a brief period of time beyond the PGA filing date – i.e., from September through December of 2007. The Stipulating Parties have simply agreed to extend the current practice of the full recovery of hedge costs from six months to ten months, without being subject to additional gas cost sharing risk under the PGA mechanism. This does not represent such a substantial departure from the current PGA mechanism, so as to defeat the underlying purposes of the Stipulation. This additional period of deferral calculation simply allows Avista to extend its hedging period somewhat beyond the PGA filing date and, in the process, further diversify its natural gas portfolio which "the Signing Parties believe is in the long-term best interest of customers." (Stipulating Parties Reply/100/p. 5)

It is also well to remember that the terms of the Stipulation only apply to the 2007-2008 PGA year. Any permanent modifications to the PGA process resulting from the ongoing docket in UM 1286 will occur beyond the 2007-2008 PGA year. Great care was taken in the Stipulation to assure that it does not serve to act as precedent in the generic docket (UM 1286) and that any Commission Order ultimately issuing in UM 1286 will take precedence prospectively over the Stipulation. (See Section 9)

This Commission should approve the Stipulation as an appropriate resolution of outstanding issues in a disputed docket covering a discrete PGA period (the 2007-2008 PGA year). It represents a negotiated compromise of positions resulting in a resolution that is in the best interests of customers.

RESPECTFULLY SUBMITTED this 1st day of May, 2007.

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By:____________________________________
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Dated: ____________________________________

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By:____________________________________
Stephanie Andrus, Attorney for Staff of the
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Dated: 5/1/07

NORTHWEST INDUSTRIAL GAS USERS

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By: Donald A. Haagen
for Chad M. Stokes

Dated: 5/1/07

CERTIFICATE OF SERVICE

I certify that on May 1, 2007, I served the foregoing upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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