Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170

AVISTA
Corp.

September 21, 2005

Oregon Public Utility Commission
550 Capitol Street N.E., Suite 215
Salem, OR 97301-2551

Attention: Ms. Vikie Bailey-Goggins
RE: Docket No. UG 165/Advice No. 05-03-G

The purpose of this letter is to briefly respond to the OPUC Staff memorandum, dated September 19, 2005, in the Docket referenced above, related to Avista's Purchased Gas Adjustment (PGA) filing before the Commission.

As the Commission reviews Staff's memo, the Company requests that the Commission also take into consideration Avista's response in the following three areas:

1. **The Outcome**: A primary concern in Staff's memo is a change made by Avista in its hedging plan for the upcoming 2005/2006 natural gas year. In July, Avista chose to hedge approximately 93% of its gas load for the coming year, instead of its previous plans to hedge 50% of winter load. Based on current market prices, the additional hedges entered into by the Company have resulted in lower costs to its customers for the upcoming year of approximately $10 million. Staff states in its memo at the bottom of page 13: "Staff is not recommending a disallowance at this time because Staff cannot draw a nexus between harm to the ratepayer and the company's decision to change its hedging strategy." This is an indirect way of saying that based on the best available information, the additional action taken by the Company results in lower costs for customers.

2. **The Process**: Avista did in fact have a process that led it to change its hedging plans for the 2005/2006 gas year. The Company's decision to enter into the additional hedges was documented, communicated to, and approved by Avista's Risk Management Committee. All transactions were fully consistent with Avista's risk management policies and procedures. Avista's intention to enter into the additional hedges was also communicated to the OPUC Staff in advance of the hedges. Whether the process actually undertaken by the Company was sufficiently explained to Staff, and whether it was sufficiently documented, are matters that should be further discussed by the Company and Staff in the near future.

3. **Plans for the Future**: With regard to a review of purchasing and hedging strategies in the future, Staff states on page 13 of its memo: "We plan to work closely with the LDCs and interested parties over the next two months on an informal basis prior to opening a formal investigation." Avista commits to work with Staff and other interested parties in this process, and also to work with Staff on the areas identified in its memo that are specifically related to Avista.

Staff's presentation of shortcomings in its memo is overstated, and does not fairly represent the existing natural gas hedging policies and procedures that Avista has in place, nor the process that Avista went through to document and gain approval of the changes in the hedging plan. These changes were approved by Avista's Risk Management Committee, which includes the Company's Chairman of the Board, Chief Financial Officer, President of Avista Utilities, and the Director of Risk Management, among others. With respect to a reference to "violations," the Company did not violate any established policies of the Commission, nor any internal policies of the Company related to natural gas procurement. The reference on page 13 to a "lack of control in its gas procurement process," is not a fair characterization. Further, the additional hedges had nothing to do with "speculation," as suggested by Staff, but were designed to provide additional protection for customers from a possible rise in prices. This rise in prices has ultimately occurred.

Fundamentally, the actions taken by the Company were reasonable, they were documented, and have led to lower gas costs for customers. It is not unusual for the cost of natural gas for a utility, in a particular year, to be different than other regional utilities. In this PGA, Avista's cost of gas is higher than Cascade and Northwest Natural. In recent years (2002 for example), Avista's cost of gas was lower than both Cascade and Northwest. It is not unusual for these differences to occur from year to year, and should not be the determining factor in the assessment of the prudence of gas costs.

The Company respectfully requests that Staff's recommendation for approval of natural gas costs in this PGA filing be approved.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State & Federal Regulation

c. Chairman Lee Beyer
Commissioner John Savage
Commissioner Ray Baum
Lee Sparling
Ed Busch
Bonnie Tatom