

HARDY MYERS
Attorney General



PETER D. SHEPHERD
Deputy Attorney General

DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

February 9, 2007

Filing Center
Public Utility Commission of Oregon
550 Capitol Street, NE
Salem, Oregon 97301

Re: UM 1282

Dear Filing Center:

Enclosed for filing please find the originals and five copies each of a stipulation entered into by Avista Corporation, staff of the Public Utility Commission, and Northwest Industrial Gas Users and supporting testimony.

Thank you for your attention.

Very truly yours,

Stephanie S. Andrus
Assistant Attorney General

Enc.

- c. Service list
- Ken Zimmerman
- Bonnie Tatom

1 December 2007, with no more than 15% of the volumes open to fixed-price
2 hedging procured during any 30-day hedge window period. Prudent fixed-price
3 hedges executed after the date of the final 2007 PGA filing will be fully passed
4 through the current PGA deferral account, unless Avista chooses to request and
5 the Commission approves a change to the PGA baseline PGA WACOG included
6 in rates. (Appendix A illustrates how this will be accounted for.) Natural gas
7 commodity costs that have not been fixed through hedges will continue to be
8 subject to the 90%/10% sharing under Avista's PGA mechanism. In addition to
9 the fixed-price hedges, Avista will evaluate the use of other products such as
10 options.

11 c. Avista expects that no counterparty involved in the fixed-price hedges will
12 account for more than 25% of the total annual volumes fixed-price hedging for
13 this period.

14 d. Avista will monitor market conditions and its system needs, and will modify its
15 gas purchasing strategy as circumstances warrant. Avista will inform and explain
16 these modifications to the Signing Parties as soon as possible, and will offer to
17 provide the same information to CUB.

18 e. Nothing in these communications is intended to represent or support the prudence
19 of Avista's 2007-2008 gas supply portfolio.

20 8. Documentation: Avista will document the development and evolution of its gas
21 procurement strategy and resource portfolio, including both physical and financial resources.
22 Avista will monitor fundamental market factors and market-based regional and national price
23 forecasts on a regular basis. Avista will document its research, reasoning, and decisions as it

1 develops and modifies its gas procurement strategy. Avista will document how interpretations of
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4 portfolio development, implementation, and assessment. Relevant regional and national natural
5 gas data and information reviewed by Avista in the preparation and implementation of Avista's
6 gas supply and pricing portfolio will be maintained by the Company for review by Staff and
7 other interested parties.

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9 strategy and the development of its resource portfolio including:

- 10 i. The research and data behind the development of the Company's natural gas
11 procurement strategy and its resource portfolio;
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13 research and data;
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- 15 iv. A detailed record of the portfolio itself, including the resources acquired
16 (financial and physical), transactions, counterparties, bids received, and other
17 relevant information documenting how Avista's procurement strategy and
18 resource portfolio developed over time.

19 B. Documentation of Each Transaction: By the way of further elaboration of the
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17 9. Relevance of generic PGA review (UM 1286): The Signing Parties to this
18 investigation (UM 1282) understand and agree that there is a separate Docket (UM 1286) that is
19 currently underway to address PGA matters in a more systematic way for all affected natural gas
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6 Further, this Stipulation sets forth the entire agreement between the Signing Parties and
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20 Commission's adoption of the terms of this Stipulation.

21 14. Should the Commission fail to adopt the Stipulation, or should the Commission
22 materially modify the Stipulation, any Signing Party hereto shall have the right to withdraw from
23 the Stipulation and proceed with a resolution of all issues in this proceeding.

1 15. By entering into this Stipulation, no Signing Party shall be deemed to have
2 approved, admitted, or consented to the facts, principles, methods, or theories employed by any
3 other Signing Party in arriving at the terms of this Stipulation. No Signing Party shall be deemed
4 to have agreed that any provision of this Stipulation is appropriate for resolving the issues in any
5 other proceeding.

6 16. This Stipulation may be executed in counterparts and each signed counterpart
7 shall constitute an original document. The Signing Parties further agree that any facsimile copy
8 of a Signing Party's signature is valid and binding to the same extent as an original signature.

9 17. This Stipulation may not be modified or amended except by written agreement
10 among all Signing Parties who have executed it.

11 This Stipulation is entered into by each Signing Party on the date entered below such
12 Party's signature.

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DATED this 8th day of February, 2007.

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By: [Signature]

Date: _____

Date: Feb 8, 2007

NORTHWEST INDUSTRIAL GAS USERS

By: _____

Date: _____

1 DATED this ²⁹ 8 day of February, 2007.

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4 AVISTA CORPORATION

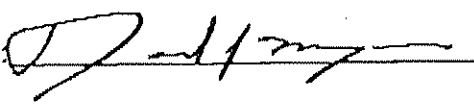
STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

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9 By: 

By: _____

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15 NORTHWEST INDUSTRIAL GAS USERS

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

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9 By: _____

By: _____

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11 Date: _____

Date: _____

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15 NORTHWEST INDUSTRIAL GAS USERS

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18 By: Paula E. Pyron

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20 Date: February 8, 2007

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APPENDIX A

(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Delivery Period	Remaining Hedged Volumes (Established in procurement plan and detailed in PGA filing)	Actual Hedged Price on Remaining Hedged Volumes (Documented and provided to Staff)	PGA Spot Price for Each Month (Detailed in PGA filing)	Difference Between Actual Hedge Price and Price in PGA Filing	Total Value of Difference	10% of Difference - Adjustment to Deferral Balance (Negative value reduces deferral balance, positive balance increases deferral balance)	
Nov-07	\$	-	\$	-	\$(C) - (D)	\$(B) * (E)	\$(F) * 0.10
Dec-07	\$	-	\$	-	\$	-	\$
Jan-08	\$	-	\$	-	\$	-	\$
Feb-08	\$	-	\$	-	\$	-	\$
Mar-08	\$	-	\$	-	\$	-	\$
Apr-08	\$	-	\$	-	\$	-	\$
May-08	\$	-	\$	-	\$	-	\$
Jun-08	\$	-	\$	-	\$	-	\$
Jul-08	\$	-	\$	-	\$	-	\$
Aug-08	\$	-	\$	-	\$	-	\$
Sep-08	\$	-	\$	-	\$	-	\$
Oct-08	\$	-	\$	-	\$	-	\$

Docket UM 1282
Stipulating Parties Exhibit 100
Zimmerman, Thackston and Pyron

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

JOINT TESTIMONY OF KENNETH R. ZIMMERMAN,
JASON THACKSTON AND PAULA E. PYRON

**In Support of Stipulation Resolving Issues in the Investigation
to Examine Avista's Gas Purchasing Strategy**

February 2007

1 **Q. Please state your names and positions.**

2 A. My name is Kenneth R. Zimmerman. I am employed by the Public Utility
3 Commission of Oregon (“OPUC”) as a Senior Utility Analyst and am appearing here on
4 behalf of the Staff of the OPUC. In my position, I am responsible for review and analysis
5 of all supply-side issues relating to natural gas purchasing, transportation, and storage by
6 Oregon Local Distribution Companies (“LDCs”); review and analysis of the supply-side
7 portfolios and portfolio development included in the LDC’s PGAs and IRPs; and tracking
8 and reporting on both national and regional natural gas industry trends, developments,
9 and prices.

10 My name is Jason Thackston. I am employed by Avista Corporation (“Company”
11 or “Avista”) as the Director of Natural Gas Supply. In this position I am responsible for
12 managing the natural gas supply needs of the utility, including pipeline transportation
13 contracts, near- and long-term resource planning, and acquisition of natural gas to serve
14 customer loads.

15 My name is Paula E. Pyron. I am an experienced energy law attorney serving the
16 last seven years as the Executive Director of the Northwest Industrial Gas Users
17 (“NWIGU”). NWIGU is a non-profit trade association of 33 industrial-sized natural gas
18 end users who have facilities in the states of Oregon, Washington and Idaho. NWIGU
19 provides information to its members on natural gas issues that impact their facilities and
20 represents its members’ interests in proceedings before the Federal Energy Regulatory
21 Commission and the Pacific Northwest state utility commissions, including the OPUC.
22 As Executive Director, my responsibilities include the review of all filings made by
23 LDCs in Oregon, including Avista’s 2006 purchased gas adjustment filing and those

1 issues raised in this Docket UM 1282, and to represent the industrial customers' concerns
2 that have arisen from that review and in this Docket.

3 **Q. What is the purpose of your joint testimony?**

4 A. The purpose of our joint testimony is to describe and support the Stipulation between
5 Commission Staff, NWIGU, and the Company ("Signing Parties") in Docket UM 1282.
6 The Stipulation is attached herewith as Exhibit 1. On October 25, 2006, this Commission
7 commenced an investigation, later docketed as UM 1282, to examine Avista's natural gas
8 purchasing strategy, particularly the Company's level of fixed-price financial hedging,
9 for its Oregon customers included as part of the Company's 2006 PGA filing. The
10 Stipulation resolves all issues between the Signing Parties related to this investigation.

11 **Q. Are there any intervening parties in this Docket that did not sign the Stipulation?**

12 A. Yes. The Citizens Utility Board ("CUB") was an intervening party that did not sign the
13 Stipulation.

14 **Q. Could you please describe the events that led to the execution of the Stipulation?**

15 A. Yes. A Prehearing Conference was held on December 8, 2006, at which time a
16 settlement conference was scheduled for January 4, 2007. All parties to this Docket
17 (Avista, Staff, NWIGU and CUB) appeared and participated. The parties reconvened a
18 settlement conference on January 12, 2007, followed by a telephonic settlement
19 conference on January 19, 2007. As a result of the settlement discussions, the Signing
20 Parties have executed the Stipulation, thereby agreeing to settle this investigation, subject
21 to Commission approval.

22 **Q. Could you generally describe the terms of the Stipulation?**

1 A. Yes. There are three distinct areas addressed and agreed to by the Parties in the
2 Stipulation. The first is a financial settlement whereby Avista agrees to a one-time credit
3 of \$500,000 to its sales service customers through the PGA deferral account upon
4 Commission approval of the Stipulation (See Section 6 of the Stipulation). The second
5 area of agreement addresses certain parameters regarding Avista's gas supply portfolio
6 for the November 2007 – October 2008 PGA year (See Section 7 of the Stipulation). The
7 third and final area of agreement addresses specific documentation to be compiled and
8 made available to all the parties to this Docket by Avista in the design, development and
9 execution of its gas supply portfolio for the 2007 – 2008 PGA year (See Section 8 of the
10 Stipulation).

11 **Q. How was the amount of the \$500,000 one-time credit arrived at?**

12 A. It was a negotiated amount among the Signing Parties following the exchange of
13 pertinent information related to the Company's natural gas hedging practices.

14 **Q. You mentioned above that Sections 7 and 8 of the Stipulation address detailed**
15 **procedures and documentation related to Avista's gas supply portfolio for the 2007-**
16 **2008 PGA year. Why did the Signing Parties feel that it was necessary to address**
17 **these matters?**

18 A. The investigation to examine Avista's gas purchasing strategy was recommended by the
19 Staff, in part, because of concerns over the level of documentation and explanation
20 surrounding Avista's gas procurement strategy. Sections 7 and 8 of the Stipulation
21 reflect a mutual understanding with regard to the development of both expanded
22 explanation and documentation of Avista's 2007-2008 gas supply portfolio design,
23 development, implementation, and assessment process, and is intended to provide

1 sufficient information for Staff's ongoing review of this process. Also, Section 7 of the
2 stipulation, described below, provides a financial hedging structure for Avista's 2007
3 PGA portfolio that directly addresses Staff's concerns about the extent of the Company's
4 reliance on fixed price financial hedging in its 2006 PGA portfolio.

5 **Q. How does this investigation relate to the more generic PGA review being conducted**
6 **in Docket UM 1286?**

7 A. The provisions related to Avista's gas supply portfolio set forth in the Stipulation apply
8 only to the November 2007 – October 2008 PGA year. There are workshops scheduled
9 through August of 2007 in the generic PGA review being conducted in UM 1286. The
10 Signing Parties understand that future guidance with respect to the PGA mechanism
11 resulting from the generic review will not be applicable until the 2008-2009 PGA year
12 and beyond.

13 **Q. What if the Commission issues an order in UM 1286 that contradicts the terms of**
14 **the Stipulation?**

15 A. In the event any terms of the Stipulation contradict a subsequent Commission order in
16 UM 1286, the UM 1286 ruling will take precedence prospectively over the Stipulation.
17 Further, nothing in the Stipulation is intended to act as a precedent for UM 1286. These
18 understandings are set forth in Section 9 of the Stipulation.

19 **Q. Could you briefly describe the provisions set forth in Section 7 of the Stipulation**
20 **related to the development of Avista's 2007-2008 gas supply portfolio for its Oregon**
21 **customers?**

1 A. Yes. Regarding the design, preparation, implementation, and assessment of its 2007-
2 2008 gas supply portfolio (the November 1, 2007 through October 31, 2008 delivery
3 period), Avista intends to proceed as follows:

4 1. By February 12, 2007, Avista will provide to the Parties a description of its
5 procurement plan for its 2007-2008 gas supply portfolio, including the intended
6 level of fixed-price hedging.

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

10 3. Fixed price hedges executed after the date of the final 2007 PGA filing will be
11 passed through in full through the PGA deferral account.

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

15 **Q. Do any of these provisions represent a departure from Avista's portfolio structure**
16 **in the past?**

17 A. Yes. Item 2 above contains two modifications to Avista's portfolio. The first is an
18 extension of the hedging period through December, whereas in prior years, Avista had
19 completed its hedging by the date of its PGA filing (September). The second
20 modification is the establishment of unique 30-day hedge "windows", or time-periods,
21 from February through December, whereby no more than 15% of the volumes to be
22 hedged could be procured during any window. During 2006, these hedge windows
23 consisted of varying durations, and the windows overlapped each other by 15 days.

1 Because of the prior overlap between windows, it was possible to execute hedges for two
2 different windows, potentially representing a substantial portion of the total hedge
3 volumes, on or near the same day.

4 **Q. Could you please explain the treatment of fixed price hedges executed after the date**
5 **of the final 2007 PGA filing?**

6 **A.** Yes. The Stipulation provides for full (100%) recovery of prudent fixed-price hedges
7 executed after the date of the final 2007 PGA filing. Under the present mechanism, all
8 prudent fixed price hedges executed at the time of the PGA filing are fully reflected in the
9 Company's filed WACOG and the associated costs are 100% recovered. The Signing
10 Parties felt that it made sense to extend the hedging period beyond the 2007 PGA filing
11 date; however, under Avista's present mechanism, the Company would be at risk for 10%
12 of the difference in the actual cost of those hedges compared to the projected cost
13 reflected in the PGA filing.

14 **Q. Under the present PGA mechanism, how will the Company recover 100% of the**
15 **cost associated with those hedges?**

16 **A.** This will be accomplished through an additional calculation and adjustment to the PGA
17 deferral account each month. This additional monthly calculation is shown in Appendix
18 A of the Stipulation. As Avista's present PGA mechanism defers only 90% of the
19 difference between actual and projected gas costs that are not hedged at the time of the
20 PGA filing, this additional calculation will capture the additional 10%, either positive or
21 negative, that has not been deferred.

22 **Q. Would you please provide an overview of the documentation related to Avista's**
23 **2007-2008 gas supply portfolio that is agreed to in the Stipulation?**

1 A. Yes. As previously discussed, by February 12, 2007, Avista will provide the Parties a
2 description of its procurement plan. Additionally, Section 8 of the Stipulation sets forth
3 how Avista will document its procurement strategy and the development of its resource
4 portfolio. Specific documentation related to each hedge will be maintained by the
5 Company, as well as any deviation from its procurement plan. Further, Avista will meet
6 with Staff and other Parties in this proceeding after the first hedging transaction to review
7 the documentation to assure that it meets the needs of the Parties.

8 **Q. Does Avista's compliance with the terms of the Stipulation related to its 2007-2008**
9 **gas supply portfolio presume the prudence of that portfolio?**

10 A. No. As set forth in Section 7e of the Stipulation, nothing in the Stipulation "is intended
11 to represent or support the prudence of Avista's 2007-2008 gas supply portfolio."

12 **Q. Does that complete your joint testimony in this proceeding?**

13 A. Yes, it does.

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1 **CERTIFICATE OF SERVICE**

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3 I certify that on February 9, 2007, I served the foregoing upon all parties of record in this
4 proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid
5 first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

6 **AVISTA UTILITIES**
7 CRAIG BERTHOLF
8 REGULATORY ANALYSIS
9 PO BOX 3727
10 SPOKANE WA 99220-3727

11 **AVISTA UTILITIES**
12 BRIAN HIRSCHKORN
13 MANAGER RETAIL PRICING RATES & TARIFFS
14 PO BOX 3727
15 SPOKANE WA 99220-3727
16 brian.hirschhorn@avistacorp.com

17 **CABLE HUSTON BENEDICT ET AL**
18 EDWARD A FINKLEA
19 1001 SW 5TH - STE 2000
20 PORTLAND OR 97204
21 efinklea@chbh.com

22 **W**
23 **CITIZENS' UTILITY BOARD OF OREGON**
24 LOWREY R BROWN
25 UTILITY ANALYST
26 610 SW BROADWAY - STE 308
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PUBLIC UTILITY COMMISSION/OR
KEN ZIMMERMAN
550 CAPITOL ST NE, STE 215
SALEM OR 97301
ken.zimmerman@state.or.us

19 

20 _____
21 Neoma Lane
22 Legal Secretary
23 Department of Justice
24 Regulated Utility & Business Section

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22 materially modify the Stipulation, any Signing Party hereto shall have the right to withdraw from
23 the Stipulation and proceed with a resolution of all issues in this proceeding.

1 15. By entering into this Stipulation, no Signing Party shall be deemed to have
2 approved, admitted, or consented to the facts, principles, methods, or theories employed by any
3 other Signing Party in arriving at the terms of this Stipulation. No Signing Party shall be deemed
4 to have agreed that any provision of this Stipulation is appropriate for resolving the issues in any
5 other proceeding.

6 16. This Stipulation may be executed in counterparts and each signed counterpart
7 shall constitute an original document. The Signing Parties further agree that any facsimile copy
8 of a Signing Party's signature is valid and binding to the same extent as an original signature.

9 17. This Stipulation may not be modified or amended except by written agreement
10 among all Signing Parties who have executed it.

11 This Stipulation is entered into by each Signing Party on the date entered below such
12 Party's signature.

1 DATED this ____ day of February, 2007.

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4 AVISTA CORPORATION

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9 By: _____

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11 Date: _____

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15 NORTHWEST INDUSTRIAL GAS USERS

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18 By: _____

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20 Date: _____

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

Date: _____

Docket UM 1282
Stipulating Parties Exhibit 100
Zimmerman, Thackston and Pyron

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

JOINT TESTIMONY OF KENNETH R. ZIMMERMAN,
JASON THACKSTON AND PAULA E. PYRON

**In Support of Stipulation Resolving Issues in the Investigation
to Examine Avista's Gas Purchasing Strategy**

February 2007

1 **Q. Please state your names and positions.**

2 A. My name is Kenneth R. Zimmerman. I am employed by the Public Utility
3 Commission of Oregon (“OPUC”) as a Senior Utility Analyst and am appearing here on
4 behalf of the Staff of the OPUC. In my position, I am responsible for review and analysis
5 of all supply-side issues relating to natural gas purchasing, transportation, and storage by
6 Oregon Local Distribution Companies (“LDCs”); review and analysis of the supply-side
7 portfolios and portfolio development included in the LDC’s PGAs and IRPs; and tracking
8 and reporting on both national and regional natural gas industry trends, developments,
9 and prices.

10 My name is Jason Thackston. I am employed by Avista Corporation (“Company”
11 or “Avista”) as the Director of Natural Gas Supply. In this position I am responsible for
12 managing the natural gas supply needs of the utility, including pipeline transportation
13 contracts, near- and long-term resource planning, and acquisition of natural gas to serve
14 customer loads.

15 My name is Paula E. Pyron. I am an experienced energy law attorney serving the
16 last seven years as the Executive Director of the Northwest Industrial Gas Users
17 (“NWIGU”). NWIGU is a non-profit trade association of 33 industrial-sized natural gas
18 end users who have facilities in the states of Oregon, Washington and Idaho. NWIGU
19 provides information to its members on natural gas issues that impact their facilities and
20 represents its members’ interests in proceedings before the Federal Energy Regulatory
21 Commission and the Pacific Northwest state utility commissions, including the OPUC.
22 As Executive Director, my responsibilities include the review of all filings made by
23 LDCs in Oregon, including Avista’s 2006 purchased gas adjustment filing and those

1 issues raised in this Docket UM 1282, and to represent the industrial customers' concerns
2 that have arisen from that review and in this Docket.

3 **Q. What is the purpose of your joint testimony?**

4 A. The purpose of our joint testimony is to describe and support the Stipulation between
5 Commission Staff, NWIGU, and the Company ("Signing Parties") in Docket UM 1282.
6 The Stipulation is attached herewith as Exhibit 1. On October 25, 2006, this Commission
7 commenced an investigation, later docketed as UM 1282, to examine Avista's natural gas
8 purchasing strategy, particularly the Company's level of fixed-price financial hedging,
9 for its Oregon customers included as part of the Company's 2006 PGA filing. The
10 Stipulation resolves all issues between the Signing Parties related to this investigation.

11 **Q. Are there any intervening parties in this Docket that did not sign the Stipulation?**

12 A. Yes. The Citizens Utility Board ("CUB") was an intervening party that did not sign the
13 Stipulation.

14 **Q. Could you please describe the events that led to the execution of the Stipulation?**

15 A. Yes. A Prehearing Conference was held on December 8, 2006, at which time a
16 settlement conference was scheduled for January 4, 2007. All parties to this Docket
17 (Avista, Staff, NWIGU and CUB) appeared and participated. The parties reconvened a
18 settlement conference on January 12, 2007, followed by a telephonic settlement
19 conference on January 19, 2007. As a result of the settlement discussions, the Signing
20 Parties have executed the Stipulation, thereby agreeing to settle this investigation, subject
21 to Commission approval.

22 **Q. Could you generally describe the terms of the Stipulation?**

1 A. Yes. There are three distinct areas addressed and agreed to by the Parties in the
2 Stipulation. The first is a financial settlement whereby Avista agrees to a one-time credit
3 of \$500,000 to its sales service customers through the PGA deferral account upon
4 Commission approval of the Stipulation (See Section 6 of the Stipulation). The second
5 area of agreement addresses certain parameters regarding Avista's gas supply portfolio
6 for the November 2007 – October 2008 PGA year (See Section 7 of the Stipulation). The
7 third and final area of agreement addresses specific documentation to be compiled and
8 made available to all the parties to this Docket by Avista in the design, development and
9 execution of its gas supply portfolio for the 2007 – 2008 PGA year (See Section 8 of the
10 Stipulation).

11 **Q. How was the amount of the \$500,000 one-time credit arrived at?**

12 A. It was a negotiated amount among the Signing Parties following the exchange of
13 pertinent information related to the Company's natural gas hedging practices.

14 **Q. You mentioned above that Sections 7 and 8 of the Stipulation address detailed
15 procedures and documentation related to Avista's gas supply portfolio for the 2007-
16 2008 PGA year. Why did the Signing Parties feel that it was necessary to address
17 these matters?**

18 A. The investigation to examine Avista's gas purchasing strategy was recommended by the
19 Staff, in part, because of concerns over the level of documentation and explanation
20 surrounding Avista's gas procurement strategy. Sections 7 and 8 of the Stipulation
21 reflect a mutual understanding with regard to the development of both expanded
22 explanation and documentation of Avista's 2007-2008 gas supply portfolio design,
23 development, implementation, and assessment process, and is intended to provide

1 sufficient information for Staff's ongoing review of this process. Also, Section 7 of the
2 stipulation, described below, provides a financial hedging structure for Avista's 2007
3 PGA portfolio that directly addresses Staff's concerns about the extent of the Company's
4 reliance on fixed price financial hedging in its 2006 PGA portfolio.

5 **Q. How does this investigation relate to the more generic PGA review being conducted**
6 **in Docket UM 1286?**

7 A. The provisions related to Avista's gas supply portfolio set forth in the Stipulation apply
8 only to the November 2007 – October 2008 PGA year. There are workshops scheduled
9 through August of 2007 in the generic PGA review being conducted in UM 1286. The
10 Signing Parties understand that future guidance with respect to the PGA mechanism
11 resulting from the generic review will not be applicable until the 2008-2009 PGA year
12 and beyond.

13 **Q. What if the Commission issues an order in UM 1286 that contradicts the terms of**
14 **the Stipulation?**

15 A. In the event any terms of the Stipulation contradict a subsequent Commission order in
16 UM 1286, the UM 1286 ruling will take precedence prospectively over the Stipulation.
17 Further, nothing in the Stipulation is intended to act as a precedent for UM 1286. These
18 understandings are set forth in Section 9 of the Stipulation.

19 **Q. Could you briefly describe the provisions set forth in Section 7 of the Stipulation**
20 **related to the development of Avista's 2007-2008 gas supply portfolio for its Oregon**
21 **customers?**

1 A. Yes. Regarding the design, preparation, implementation, and assessment of its 2007-
2 2008 gas supply portfolio (the November 1, 2007 through October 31, 2008 delivery
3 period), Avista intends to proceed as follows:

4 1. By February 12, 2007, Avista will provide to the Parties a description of its
5 procurement plan for its 2007-2008 gas supply portfolio, including the intended
6 level of fixed-price hedging.

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

10 3. Fixed price hedges executed after the date of the final 2007 PGA filing will be
11 passed through in full through the PGA deferral account.

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

15 **Q. Do any of these provisions represent a departure from Avista's portfolio structure**
16 **in the past?**

17 A. Yes. Item 2 above contains two modifications to Avista's portfolio. The first is an
18 extension of the hedging period through December, whereas in prior years, Avista had
19 completed its hedging by the date of its PGA filing (September). The second
20 modification is the establishment of unique 30-day hedge "windows", or time-periods,
21 from February through December, whereby no more than 15% of the volumes to be
22 hedged could be procured during any window. During 2006, these hedge windows
23 consisted of varying durations, and the windows overlapped each other by 15 days.

1 Because of the prior overlap between windows, it was possible to execute hedges for two
2 different windows, potentially representing a substantial portion of the total hedge
3 volumes, on or near the same day.

4 **Q. Could you please explain the treatment of fixed price hedges executed after the date**
5 **of the final 2007 PGA filing?**

6 **A.** Yes. The Stipulation provides for full (100%) recovery of prudent fixed-price hedges
7 executed after the date of the final 2007 PGA filing. Under the present mechanism, all
8 prudent fixed price hedges executed at the time of the PGA filing are fully reflected in the
9 Company's filed WACOG and the associated costs are 100% recovered. The Signing
10 Parties felt that it made sense to extend the hedging period beyond the 2007 PGA filing
11 date; however, under Avista's present mechanism, the Company would be at risk for 10%
12 of the difference in the actual cost of those hedges compared to the projected cost
13 reflected in the PGA filing.

14 **Q. Under the present PGA mechanism, how will the Company recover 100% of the**
15 **cost associated with those hedges?**

16 **A.** This will be accomplished through an additional calculation and adjustment to the PGA
17 deferral account each month. This additional monthly calculation is shown in Appendix
18 A of the Stipulation. As Avista's present PGA mechanism defers only 90% of the
19 difference between actual and projected gas costs that are not hedged at the time of the
20 PGA filing, this additional calculation will capture the additional 10%, either positive or
21 negative, that has not been deferred.

22 **Q. Would you please provide an overview of the documentation related to Avista's**
23 **2007-2008 gas supply portfolio that is agreed to in the Stipulation?**

1 A. Yes. As previously discussed, by February 12, 2007, Avista will provide the Parties a
2 description of its procurement plan. Additionally, Section 8 of the Stipulation sets forth
3 how Avista will document its procurement strategy and the development of its resource
4 portfolio. Specific documentation related to each hedge will be maintained by the
5 Company, as well as any deviation from its procurement plan. Further, Avista will meet
6 with Staff and other Parties in this proceeding after the first hedging transaction to review
7 the documentation to assure that it meets the needs of the Parties.

8 **Q. Does Avista’s compliance with the terms of the Stipulation related to its 2007-2008**
9 **gas supply portfolio presume the prudence of that portfolio?**

10 A. No. As set forth in Section 7e of the Stipulation, nothing in the Stipulation “is intended
11 to represent or support the prudence of Avista’s 2007-2008 gas supply portfolio.”

12 **Q. Does that complete your joint testimony in this proceeding?**

13 A. Yes, it does.

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