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March 28, 2007

**VIA ELECTRONIC MAIL  
AND U.S. MAIL**

Public Utility Commission of Oregon  
Attn: Filing Center  
550 Capitol St. NE, Suite 215  
P.O. Box 2148  
Salem, OR 97308-2148

RE: Docket 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

Dear Filing Center:

Enclosed please find the original and five (5) copies of joint reply testimony provided by Avista Corporation, staff of the Public Utility Commission, and Northwest Industrial Gas Users in the above referenced docket. This was filed electronically with the Public Utility Commission of Oregon on this date, and will be served by Electronic Mail and by U.S. Mail on those parties listed on the Public Utility Commission of Oregon's current Service List.

Please direct any questions regarding this filing to myself at (509) 495-2547.

Sincerely,

A handwritten signature in black ink, appearing to read "James McDougall", written in a cursive style.

James McDougall  
Regulatory Analyst

Enclosures  
cc: Parties

Docket UM 1282  
Stipulating Parties Reply Testimony/100  
Zimmerman, Thackston and Pyron

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

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

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**In Reply to the Response Testimony of the Citizens' Utility Board of Oregon ("CUB")  
in the Investigation to Examine Avista's Gas Purchasing Strategy**

March 28, 2007

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

2 A. My name is Kenneth R. Zimmerman. I am employed by the Public Utility Commission  
3 of Oregon (“OPUC”) as a Senior Utility Analyst and am appearing here on behalf of the  
4 Staff of the OPUC.

5 My name is Jason Thackston. I am employed by Avista Corporation (“Company” or  
6 “Avista”) as the Director of Natural Gas Supply.

7 My name is Paula Pyron. I am Executive Director of the Northwest Industrial Gas Users  
8 (“NWIGU”).

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

10 A. The purpose of our joint testimony is to reply to the Response Testimony of the Citizens’  
11 Utility Board of Oregon (“CUB”), sponsored by CUB Witness Lowrey Brown (“CUB  
12 Response”).

13 **Q. Could you describe the “PGA modification” contained in the Stipulation that CUB  
14 refers to in their testimony?**

15 A. Yes. This PGA modification is simply an additional deferral calculation, as shown in  
16 Appendix A of the Stipulation, which would allow the Company to defer 100% of fixed-  
17 price hedges completed after the Company’s PGA filing. Without this additional  
18 calculation, the Company would be at risk to potentially absorb a substantial incremental  
19 level of gas costs under the present gas cost sharing mechanism.

20 **Q. Why is this additional deferral calculation a part of the Stipulation?**

21 A. This docket was opened to further examine Avista’s purchasing strategies. During  
22 settlement discussions between OPUC Staff, NWIGU, CUB and Avista (“Parties”), part  
23 of the discussions focused on the timeframe during which fixed-price hedges have been

1 completed. In recent years, the hedges executed by the Company were completed prior  
2 to the annual PGA filing, and the known gas costs associated with those hedges are  
3 allowed to be included in the Company's WACOG filed in the PGA. The Stipulating  
4 Parties agreed that spreading the hedges over a longer time period further diversifies the  
5 natural gas portfolio and is in the long-term best interests of customers. This provision is  
6 set forth in Section 7.b of the Stipulation. The additional deferral calculation merely  
7 allows Avista to increase its hedging period from six months to ten months without being  
8 subject to additional gas cost sharing risk under its PGA mechanism.

9 **Q. You mentioned above that Avista would not be subject to additional gas cost sharing**  
10 **risk with the additional deferral calculation. Would the Company be subject to less**  
11 **risk with the additional calculation?**

12 A. No. The additional calculation allows the Company to defer 100% of fixed price hedges  
13 completed after the PGA filing, which is the same treatment provided currently for  
14 hedges completed prior to the PGA filing.

15 **Q. Has the Company changed its planned level of fixed-price hedging for the**  
16 **forthcoming 2007-08 PGA year?**

17 A. Yes. As a part of its procurement plan for the 2007-08 PGA year, Avista has reduced its  
18 planned level of fixed-price hedging, from 91% of estimated average loads in 2006-07 to  
19 approximately 70% of estimated average loads in 2007-08. The level of hedging may  
20 change as market conditions change. This procurement plan has been provided to all  
21 Parties, in compliance with Section 7.a of the Stipulation. Also, as and if Avista  
22 considers changes to the currently projected 70% level, these changes will be discussed  
23 with all Parties, including all documentation backing these contemplated changes.

1 **Q. Will this reduction in the level of hedging increase the Company's risk under the**  
2 **sharing mechanism, even with the additional deferral calculation?**

3 A. Yes. Approximately 30% of Avista's gas costs will be subject to the sharing mechanism  
4 even with the additional deferral calculation. This is simply the difference between the  
5 current planned fixed-price hedging level of 70% of anticipated average load for 2007-  
6 2008 and 100% of anticipated average load for 2007-2008.

7 **Q. Based on Avista's planned level of hedging (70% of estimated load) for the 2007-08**  
8 **PGA year, how would elimination of the additional deferral calculation affect**  
9 **Avista's exposure to the sharing mechanism?**

10 A. Based on its current procurement plan and market conditions, Avista estimates that it will  
11 have completed approximately 70% of its planned hedges by the time it files the PGA in  
12 August. Therefore, without the additional deferral calculation, about 49% of Avista's  
13 load (70% planned hedging times 70% completed at PGA filing) would be exposed to the  
14 sharing mechanism.

15 **Q. Would Avista agree to the Stipulation without the additional deferral calculation?**

16 A. No. Avista has indicated that it would not agree to the Stipulation if the additional  
17 deferral calculation is removed. Avista has noted that it cannot agree to have  
18 approximately half of its projected loads exposed to the sharing mechanism in the current  
19 volatile natural gas market.

20 **Q. Are any terms of the Stipulation at odds with the broader review of the PGA**  
21 **mechanism in UM 1286?**

1 A. No. The terms of the Stipulation apply only to the 2007-2008 PGA year. The UM 1286  
2 procedural schedule is such that permanent modifications to the PGA will occur beyond  
3 the 2007-2008 PGA year.

4 **Q. In CUB’s testimony, they describe ways Avista could “...play different procurement**  
5 **options against one another for the protection or benefit of its shareholders.” What**  
6 **protections are in place to ensure Avista will not “play” options against one**  
7 **another?**

8 A. Obviously, the Company cannot accurately predict a future price increase or decrease.  
9 Even if it could, there are safeguards in place to counter CUB’s assertion that Avista will  
10 “play” options against one another. Avista has already provided copies of its  
11 procurement plan to OPUC Staff, NWIGU, and CUB (Even though CUB was not a  
12 Stipulating Party, the Stipulating Parties felt it was appropriate to keep CUB informed).  
13 The procurement plan includes a schedule of planned hedges and the periods within  
14 which those planned hedges will be executed. As described in the procurement plan,  
15 Avista intends to follow the plan unless market conditions dictate a change in the plan.  
16 Any material changes to the plan will be fully documented and communicated with  
17 OPUC Staff concurrent with the change in the plan. Those changes will be based upon  
18 market conditions, *not* shareholder protection or benefit potential. The hedging  
19 transactions, and the decisions behind them, will be transparent to OPUC Staff, and those  
20 transactions will be reviewed by Staff and other interested parties in the subsequent PGA  
21 filing.

22 **Q. In the final analysis, please summarize why the Commission should approve the**  
23 **Settlement Stipulation?**

1 A. The Stipulation addresses and resolves all issues between the Signing Parties and is in the  
2 best interest of Avista's customers. The only provision of the Stipulation that CUB  
3 objects to is the inclusion of an additional deferral calculation that will allow Avista to  
4 recover 100% of the cost of fixed-price hedges executed beyond the PGA filing date,  
5 even though the full recovery of hedged costs is consistent with past Commission PGA  
6 authorization. The inclusion of the additional deferral calculation allows Avista to extend  
7 its hedging period beyond the PGA filing date and further diversify its natural gas  
8 portfolio, which the Signing Parties believe is in the long-term best interest of customers.

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

10 A. Yes, it does.

## CERTIFICATE OF SERVICE

I certify that on March 28, 2007, I served the foregoing upon all parties of record in Docket UM 1282 by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail to parties accepting paper service.

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