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

AVISTA
Utilities
Washington Water Power Division

November 7, 2001

State of Idaho
Idaho Public Utilities Commission
Statehouse
Boise, Idaho 83720

Attention: Ms. Jean D. Jewell, Secretary

RE: Advice No. 01-03-G

TARIFF I.P.U.C. No. 27 NATURAL GAS SERVICE

Enclosed for filing with the Commission are an original and seven copies of the Company's petition requesting approval of the proposed Natural Gas Benchmark Mechanism (Gas Benchmark). The provisions of the Gas Benchmark are included in a proposed new Tariff Schedule 163. The Company is requesting approval of the following tariff sheets:

First Revision Sheet 163	Cancelling	Original Sheet 163
First Revision Sheet 163A	Cancelling	Original Sheet 163A
First Revision Sheet 163B	Cancelling	Original Sheet 163B
First Revision Sheet 163C	Cancelling	Original Sheet 163C
First Revision Sheet 163D	Cancelling	Original Sheet 163D
Original Sheet 163E		
Original Sheet 163F		
Original Sheet 163G		

The purpose of the tariff revisions is to propose continuation of the Natural Gas Benchmark Mechanism (Gas Benchmark) including the proposed modifications. It is requested that the Commission approve these tariff sheets on or before February 1, 2002 to become effective April 1 2002.

The Gas Benchmark Mechanism, which has consolidated the Company's natural gas procurement operations under Avista Energy, its subsidiary, provides: 1) a relatively simple, objective determination of the gas costs to be charged to customers, 2) additional gas cost savings to customers, and 3) a significant shift in risk to Avista Energy associated with gas procurement and management.

The Company is proposing that the Gas Benchmark remain in effect for a three-year period, until March 31, 2005, evergreening from year-to-year thereafter, subject to modification or termination upon six-month prior written notice by the Company, Avista Energy, or any state commission to terminate the mechanism.

The Company is not proposing a change in rates or annual revenue in this filing.

Also enclosed is a "Notice of Tariff Change" which will be posted in the Company's business offices coincident with the date of this filing.

The Company requests that the Commission issue an order approving the Company's proposed Natural Gas Benchmark Mechanism, the proposed tariff schedule revisions, the accounting entries related to the continuation of the mechanism, and such other approvals as may be necessary.

Please direct any questions regarding this filing to Liz Andrews at (509) 495-8601.

Sincerely,

Kelly Norwood

Kelly O. Norwood
Vice President, Energy Resources

Enclosures

AVISTA CORP dba AVISTA UTILITIES
NOTICE OF TARIFF CHANGE
(Gas Service Only)

Notice is hereby given that the "Sheets" listed below of Tariff IPUC No. 27, covering natural gas service, have been filed with the Idaho Public Utilities Commission in Boise, Idaho:

First Revision Sheet 163	Cancelling	Original Sheet 163
First Revision Sheet 163A	Cancelling	Original Sheet 163A
First Revision Sheet 163B	Cancelling	Original Sheet 163B
First Revision Sheet 163C	Cancelling	Original Sheet 163C
First Revision Sheet 163D	Cancelling	Original Sheet 163D
Original Sheet 163E		
Original Sheet 163F		
Original Sheet 163G		

The purpose of the tariff revisions is to propose continuation of the Natural Gas Benchmark Mechanism (Gas Benchmark) including the proposed modifications. This filing will have no effect on rates or annual revenue.

It is requested that the Commission approve these tariff sheets on or before February 1, 2002 to become effective April 1 2002.

The Gas Benchmark Mechanism, which has consolidated the Company's natural gas procurement operations under Avista Energy, its subsidiary, provides: 1) a relatively simple, objective determination of the gas costs to be charged to customers, 2) additional gas cost savings to customers, and 3) a significant shift in risk to Avista Energy associated with gas procurement and management.

The Company is proposing that the Gas Benchmark remain in effect for a three-year period, until March 31, 2005, evergreening from year-to-year thereafter, subject to modification or termination upon six-month prior written notice by the Company, Avista Energy, or any state commission to terminate the mechanism.

Notice of the time and place of hearing that may be held on this filing may be obtained by writing the Idaho Public Utilities Commission, Statehouse, Boise, Idaho 83720 or by calling the Commission at (800) 432-0369.

A copy of the proposed tariff changes is available for review in the Spokane business office or can be obtained by calling (509) 495-4067 or writing:

Avista Utilities
Attention: Patty Olsness
P.O. Box 3727
Spokane, WA 99220

November 7, 2001

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Petition to extend the Natural Gas Benchmark Mechanism, by mailing a copy thereof, postage prepaid to the following:

Ms. Jean Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Bill Nicholson
Potlatch Corporation
244 California Street
Suite 610
San Francisco, California 94111

Conley Ward
Givens Pursley, LLP
277 North 6th Street, Suite 200
P. O. Box 2720
Boise, Idaho 83701

Dated at Spokane, Washington this 7th day of November 2001.

Patty Olsness

Patty Olsness
Rates Coordinator

Kelly O. Norwood
Vice President, Energy Resources
Avista Corporation
1411 E. Mission Avenue
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4724
Fax: (509) 495-8058

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA UTILITIES FOR APPROVAL OF THE)
NATURAL GAS BENCHMARK MECHANISM)

CONTENTS OF THE COMPANY'S PETITION

ATTACHMENTS

I. PURPOSE OF THE FILING

Avista Corporation dba Avista Utilities (Company or Avista Utilities) respectfully petitions the Idaho Public Utilities Commission (Commission) for an order approving the Company's extension of the existing Natural Gas Benchmark Incentive Mechanism (Benchmark Mechanism) including the proposed modifications. The present Benchmark Mechanism expires March 31, 2002. The Company requests approval of the proposed accounting and ratemaking treatment, and such other approvals as may be necessary related to the extension and implementation of the modified Benchmark Mechanism. The Company is proposing to continue the Benchmark Mechanism through the proposed natural gas Tariff Schedule 163 as modified.

The Company requests that the Commission approve the proposed Tariff Schedule 163 on or before February 1, 2002. The February 1 approval date is necessary in order to allow appropriate time for portfolio planning and to begin gas acquisition for the upcoming operating year. In addition, the Company requests that proposed Tariff 163 become effective April 1, 2002, and shall remain in effect for a three-year-period, until March 31, 2005. The Mechanism shall continue in effect year-to-year thereafter, subject to modification or termination upon six-month prior written notice by the Company, Avista Energy, or any of the state commissions.

II. EXECUTIVE SUMMARY

Summary of Current Benchmark Mechanism:

The current Benchmark Mechanism works in conjunction with the existing Purchased Gas Adjustment (PGA) mechanism, Tariff Schedule 150. Deferrals for the PGA are calculated each month based on the costs and revenues from the Benchmark Components, as well as other costs normally included in the PGA.

The Benchmark Mechanism provides: 1) a relatively simple and objective determination of the gas costs to be charged to customers, 2) additional gas cost savings to customers, and 3) a significant shift of risk to Avista Energy associated with gas procurement and management.

There are three major components of the current Benchmark Mechanism. First is the Commodity Component, which consists of a calculated Weighted Average Index Price for natural gas based on published index prices for three supply basins, plus an Index Adder of $.05 a dekatherm. Second is the JP Storage Component, which provides additional savings to customers from the operation of the JP Storage Project. Third is the Capacity Release/Off-System Sales Component, which provides a guaranteed level of savings to customers, related to the release of pipeline capacity and off-system sales.

For the experimental period of the Benchmark Mechanism, benefits provided to Idaho customers for the 24 month period ending August 31, 2001 were approximately $4,038,000 for the Capacity Release/Off-System Sales Component.

These savings are over and above the annual administrative cost savings passed onto customers, ($35,300 Idaho portion), that Avista Energy has absorbed in managing the gas procurement operations for the utility. In addition to these benefits, customers continue to receive reliable natural gas service.

<u>Proposed Changes to Benchmark Mechanism:</u>

Through this filing, the Company is proposing to continue the current Benchmark Mechanism with modifications to the Jackson Prairie (JP) Storage Component and

Transportation Component, the Commodity Components, and the inclusion of a sharing component to the Mechanism. Modifications to the Commodity Component include a gas procurement (hedging) strategy that should reduce the level of gas cost volatility and risk under the present mechanism.

The cost and risks to Avista Energy associated with management of gas procurement for the Utility have increased significantly during the past year. These costs and risks are discussed in detail in the Benchmark Evaluation Report filed with the Commission on November 1, 2001. While Avista Energy will continue to bear the majority of these increased costs and risks, modifications are being proposed to the Mechanism that will 1) shift a small portion of the gas cost risk associated with meeting customers' variable daily load requirements from Avista Energy to the Utility and 2) provide for a lower guaranteed amount related to off-system sales but provide for a reasonable sharing of the benefits generated in excess of the guaranteed amount.

The modified Benchmark Mechanism, Schedule 163 (See Attachment G "Proposed Tariff Schedule 163"), would begin on April 1, 2002, if all state commission approvals are received by February 1. The Company is requesting approval by February 1, 2002 so that the necessary arrangements can be made for implementation of the mechanism beginning April 1, 2002.

III. PROCEDURAL INFORMATION

The Company is an investor-owned utility engaged in the generation, transmission, and distribution of electricity, and the distribution of natural gas in certain portions of northern Idaho and eastern Washington. The Company is subject to the jurisdiction of the Idaho Public Utilities Commission, the Washington Utilities and Transportation Commission, the Montana Public Service Commission, and the Federal Energy Regulatory Commission. A division of the Company, OR/CA division, also serves as a local gas distribution utility in certain portions of Oregon and California and is subject to the regulation of the Oregon Public Utilities Commission and the California Public Utilities Commission.

Communications in reference to this Application should be addressed to:

Kelly O. Norwood
Vice President, Energy Resources
Avista Corporation
1411 E. Mission Avenue
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4267
Fax: (509) 495-8058

David J. Meyer
Senior Vice President and General Counsel
Avista Corporation
1411 E. Mission Avenue
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4316
Fax: (509) 495-4361

IV. CONSOLIDATION OF OPERATIONS UNDER AVISTA ENERGY

A. Consolidation Efforts/Benefits

Through consolidation of the Company's gas procurement functions under Avista Energy, Avista Energy has been able to pool Avista Utilities' supply, storage, and transportation arrangements with their portfolio. This has provided retail customers additional benefits from Avista Energy's trading operations, while avoiding many of the risks. Avista Energy has been able to provide expertise, sophisticated tools, involvement in a broader geographic market, and a more intense focus on market conditions than what Avista Utilities could have provided. This has resulted in lower costs to customers than was possible under Avista Utilities' smaller-scale natural gas procurement operations, given a similar gas purchase strategy.

Consolidation under Avista Energy, rather than outsourcing to a third party, has also provided for a greater level of regulatory oversight through their commitment to cooperate with the Commission Staff in reviews of Avista Energy operations, on a confidential basis, as they relate to the Agency Agreement.

Consolidation under Avista Energy allowed Avista Utilities to reduce the administrative costs associated with natural gas procurement operations. For the Benchmark Mechanism experiment, these administrative cost savings were credited to Idaho customers through the PGA deferral process at the fixed amount of $35,300 per year. This amount should continue with the new mechanism until these cost savings are reflected in rates through a future rate proceeding.

B. Risk Components Absorbed by Avista Energy

Consolidation of gas procurement operations under Avista Energy has shifted many of the risks associated with gas procurement operations from the Utility and its customers to Avista Energy, such as market liquidity, administrative and legal risks, etc. In addition, Avista Energy is responsible for: (1) Management of Intra-Month Price Volatility, (2) Currency Risk, (3) Nomination Errors (4) Metering Errors (5) Forecast Errors (6) Credit and Banking, (7) Counter Party Risk, (8) Operation Flow Order Risk and (9) Entitlement Risk. Because of changes in the market and the industry, the potential economic consequences associated with these risks have increased considerably over the past several years. The

Company discusses these risks and their impacts on Avista Energy in detail in the Idaho Benchmark Mechanism Summary Evaluation Report filed November 1, 2001.

V. BENCHMARK COMPONENTS - CURRENT AND PROPOSED

On November 1, 2001, the Company filed the two-year Benchmark Mechanism Summary Evaluation Report. Please refer to that report for a complete review of the current Benchmark Mechanism and the calculations for benefits received by Avista Utilities' customers and by Avista Energy.

For a summary of the current Mechanism versus proposed changes, see Attachment C, "Comparison of Natural Gas Benchmark Mechanism: Current vs. Modified".

A. Commodity Component

Current Mechanism

The commodity price paid by Avista Utilities under the current Benchmark Mechanism is a market price based on a weighted average of first-of-the-month (FOM) indices of the three supply basins from which the supply must be procured, plus a $0.05 per dekatherm Index Adder. This weighting includes 50% from AECO (Alberta), 25% from Sumas (British Columbia), and 25% from Rockies (Domestic supply). This basin weighting is approximately equal to the procurement practices of Avista Utilities during the several years before the Benchmark Mechanism was developed. It also approximates the physical structure and restrictions of the Company's pipeline transportation capacity.

The $0.05 Index Adder was originally established based on the difference between the Utility's actual cost of gas and index prices. The $0.05 Index Adder was included because a premium must be paid for physical gas (compared to a financial instrument) and due to the extremely poor load factor of the Utility's customers, who have very high winter heating loads and greatly reduced loads during summer months. Where the premium for load factor was relatively small at the inception of the Mechanism, that premium has increased significantly since that time. This $0.05 Index Adder is well below market premiums paid in today's market for load following and shaping for a load similar to Avista Utilities customers.

As a direct result of the extreme price volatility during the 2000-2001 period, Avista Utilities went outside the Benchmark Mechanism and hedged a substantial portion of the natural gas supply for our customers through mid-2002. Following a period of unprecedented gas prices, the Company moved to limit our customers' exposure to similar prices in the future. The Company undertook this hedging activity with authorization from the Commission.

Although the Index Adder would need to be much higher to cover market costs and risks in the current market (as high as $0.20 to $0.36 per dekatherm in today's market), the Company recommends leaving the current Index Adder of $0.05 per dekatherm unchanged. The proposed changes in the commodity pricing structure will address some of the current market risks and allow the Index Adder to remain unchanged. The Index Adder would continue to be applied to all volumes purchased.

Proposed Change:

Tiered Commodity Program.

The current commodity pricing structure described above was intended to provide a price to customers that was based solely on market conditions, given the structure of the loads and the Company's physical assets. Studies have shown that over time a market index price provides the lowest commodity price to customers. Price certainty or stability is a product that comes with a cost, usually paid to a bank or other party, to lock in commodity prices at a fixed rate. However, the extreme market conditions of the past year have shown that even though in the long term an index market price probably results in the lowest costs, the volatility in costs and rates that can result in the short term can create a significant hardship for our customers. This volatility has led the Company to see a need to fix a portion of the cost of natural gas supply for its customers in the future. The Company proposes to implement a Tiered Commodity Program approach to the commodity component of the Benchmark. This will reduce potential customer price volatility associated with 100% exposure to short-term gas markets and reduce Avista Energy's daily gas price risk. Gas purchases will be made utilizing four pricing mechanisms that will diversify the gas purchase portfolio: (1) fixed price purchases, (2) first of month (FOM) index market, (3) gas daily (GD) index market and (4) peaking service supplied from early withdrawal of Jackson Prairie (JP) and from Plymouth Storage facilities priced at their summer WACOG prices. All purchases or priced volumes included in each Tier will include the $0.05 Index Adder.

First Tier: Fixed Purchases. Because of the recent price volatility experienced in the gas markets, both the Utility and Avista Energy believe that a diversified purchased gas strategy / portfolio will reduce the potential rate volatility to customers. As a result of the run-up in gas prices last fall and winter and the resulting increase in customer rates, the Utility initiated a gas price hedging strategy to work in conjunction with the present Benchmark Mechanism. The Utility has fixed the price on approximately 50% of its estimated load requirements through mid-2002. Future fixed price gas purchases would be initiated by Avista Energy, as described below.

Purchases in the fixed price market will utilize futures contracts or hedging instruments of not more than two years in duration. These fixed purchases will constitute approximately 40.4% of the estimated average monthly usage (WA/ID). Including the use of storage gas under the JP synthetic schedule, fixed price purchases will constitute approximately 49% of the estimated usage. This level is approximately equal to the Utility's (WA/ID) minimum load plus supply required for the Jackson Prairie synthetic injection schedule. These fixed price purchases and storage gas usage make up the first Tier of the proposed commodity portion of the Benchmark. The Company will provide information in the quarterly summary evaluation reports of all hedging activities.

<u>Second Tier: FOM Index Purchases.</u> The second Tier represents customer loads in excess of the fixed price purchased and synthetic storage gas volumes up to the daily load requirements that would be expected to occur approximately 70% of the time and include 46.6% of customer usage. These volumes in excess of Tier 1 volumes will be priced at the FOM index plus the Adder. A statistical analysis using the past five years of daily load requirements will be used to determine the volume of daily gas each month that would be priced at the FOM index plus the Adder. This volume of daily gas will include loads that are between 30% and 70% probability of occurrence each day within a month based on historical usage. (See attachment D, "Table Examples for Tiered Commodity Program-Table A" page 1 of 2, for monthly volume levels). Avista Energy will absorb all gas price risk for actual daily loads occurring between this 30% and 70% probability level. For actual loads less than the 30% probability level, but greater than fixed price purchases and synthetic storage volumes in Tier 1, those volumes will be assumed to be sold at the weighted average Gas Daily Index, and the proceeds credited against the FOM index cost for those volumes. Based on the last

two years of actual customer loads, less than 1% of total customer volumes occurred between the fixed purchases and 30% probability level.

Third Tier: Gas Daily Purchases. Gas purchases expected to occur under Tier three is approximately 4% of total volumes. The Third Tier reflects an amount of daily load that has between a 70% and 95% probability of occurrence. Third Tier volumes will be purchased at the weighted average of the Gas Daily Index (GD) for the three supply basins plus the Adder.

Fourth Tier: Early Storage Withdrawals. In order to provide additional flexibility to use storage, the Company is proposing special provisions to be used for extreme peaking events during the period of November 20th through February 10th of each year. Based on historical analysis, the probability of this occurring is approximately 0.4%. Volumes in excess of the 95% probability level will be supplied through the use of the Company's Jackson Prairie and Plymouth storage facilities. Supply from JP will be utilized first up to the maximum capabilities of the facility. Supply from Plymouth LNG will be utilized second up to maximum capabilities of that facility. Supplies from these facilities will be priced at the respective inventory WACOGs of each facility. The following month's JP withdrawal schedule will be adjusted to reflect this early withdrawal of gas from Jackson Prairie. At the discretion of Avista Energy, refilling of the Plymouth LNG facility will take place as soon as appropriate and will be priced at the then current FOM index plus the Adder. The Fourth Tier will be used only in the event of extreme weather occurring between November 20th and February 10th of each year.

Historical analysis shows approximately 49% of customer load (WA/ID) will be served using fixed price purchases (Tier 1), 46.6% will be purchased at FOM index (Tier 2) and the remaining 4.4% be purchased at GD Index (Tier 3) or served from storage (Tier 4).

The daily loads to be purchased / priced by Tier for the upcoming year will be recalculated every April and determined using a rolling 5 years of actual historical daily load data.

See attachment D, "Table Examples for Tiered Commodity Program" pages 1 and 2, for the following table examples:

Table A, gives additional detail on estimated customer usage and would serve as the basis for establishing the different purchasing Tiers. This data will also be included in Table 1 of Tariff 163 and revised annually. (See Attachment F "Proposed Tariff Schedule 163".)

Table B, is an example of how the Tiered purchases would be determined.

B. JP Storage Component

Current Mechanism

Injection/Withdrawal Cycle

In order to provide benefits to customers from the seasonal commodity price differential, a monthly injection and withdrawal schedule is included in the Benchmark Mechanism. During the term of the experiment, the schedule was fixed with injections during May through September and withdrawals during November through April.

The schedule was based on average injections and withdrawals over a normal year, as well as provisions in Avista Utilities' JP Storage ownership contract that require the facility to be 35% full by June 30th, 80% full by August 31st and 100% full by September 30th.

The price for injections is based on the Commodity Component (FOM) price for the respective months. By the end of September each year, JP Storage, for Benchmark purposes, is full. Additionally, the withdrawal schedule was developed based on historical usage and decline curve impacts to peak day requirements.

Proposed Change:

The Company proposes to change this component by increasing the flexibility of storage withdrawal volumes during peak winter periods. This modification will change the synthetic injection/(withdrawal) cycle to the following:

System (WA/ID)

Jan	(860,000)
Feb	(810,000)
Mar	(100,000)
Apr	-
May	260,000
Jun	610,000
Jul	610,000
Aug	610,000
Sep	390,000
Oct	-
Nov	(100,000)
Dec	(610,000)

This proposed schedule moves more withdrawal volumes into February and maximizes the financial benefit to customers without sacrificing operational flexibility.

To further increase operational flexibility, a proposed change to the Commodity Component includes peaking service from storage to potentially serve a portion of customer load during extreme cold weather events. This change would provide gas from both JP and the Plymouth LNG facility, up to their operational capacity, to serve loads in Tier 4, as defined in the Commodity Component. This gas would be replaced by a reduction in the synthetic withdrawal schedule for the balance of the month and the following month if necessary. This service provides customers with price protection during extreme weather conditions when prices are most likely to peak.

C. Capacity Release/Off-System Sales Component

Current Mechanism

The Pipeline Capacity Release/Off-System Sales Component of the Benchmark Mechanism is designed to credit customers with the net benefits from the release of pipeline capacity and off-system sales using the Company's transportation contracts. The fixed annual Pipeline Benchmark amount is $2,019,000 and $4,038,000 for the 24-month period ending August 31, 2001. (See Attachment A, "Summary of Current Benchmark Mechanism Benefits to Customers".) Avista Energy's benefits for this same time period totaled approximately $3,248,000. $3.0 million of these benefits were received during a two-month period, Nov-Dec 2000, where unprecedented gas prices resulted in an unusual opportunity in the Off-System Sales market. (See Attachment B, "Summary of Current Benchmark Mechanism Benefits to Avista Energy".)

Proposed Change:

The Company is proposing a new fixed annual Pipeline Capacity Release/Off System Benchmark amount of $1,057,000. (See Attachment E, "Capacity Release/Off System Sales Benchmark" for calculations of the new Benchmark amount.) This amount reflects lower margins from Pipeline Capacity Releases due to Pipeline expansion, which has made more capacity available for release but has drove down the price, and less Avista Utilities capacity available for release due to increased customer core load growth requirements. This fixed amount will be revised annually based on any significant changes in the factors described above. The Company will notify the Commission, in writing, on or before March 1st of each year of any proposed changes to the Benchmark amount. The Commission shall review the new proposed amount and notify the Company of its decision on or Before April 1st of each year.

In addition, the Company also proposes that the Actual Margins in excess of the Pipeline Benchmark be shared 80% to customers and 20% to Avista Energy. This proposed 80/20 sharing percentage will provide customers with additional benefits from the Mechanism, while covering the increased credit, counter party and other risks associated with these activities that Avista Energy would continue to bear. This modification serves as an incentive to Avista Energy to continue to maximize utilization of available capacity for Capacity Release and Off-System Sales. Avista Energy has developed sophisticated models and tools to help maximize capacity utilization. Increased profit potential will encourage continued development and utilization of these models and tools to maximize benefits to customers.

The procedures and calculations associated with the proposed Benchmark Mechanism discussed above are provided in proposed Tariff Schedule 163, included in Attachment F, "Proposed Tariff Schedule 163".

VI. AMENDMENTS TO AGENCY AGREEMENT

The "Agency Agreement" as written has generally served both Avista Utilities and Avista Energy very well. The Agreement continues in effect from year to year unless either Party gives six months prior written notice of desire to terminate. However, because of the proposed modification to provide for fixed gas purchases (hedging), language will be added to the Agreement that any outstanding hedging obligations will be assigned to the Utility if the Benchmark is terminated unexpectedly. Further, two additional issues have arisen that will be addressed through amendments to the Agreement.

Pipeline Balancing

The Agreement states that Avista Energy will be responsible for management of pipeline imbalances, but no parameters are given within which imbalances must be maintained as long as no penalty is involved. An amendment to the Agreement will require Avista Energy to maintain core imbalances within 5% of load, similar to the requirements imposed by pipelines.

Payment Terminology

The Agreement does not currently provide for termination of service in the unlikely situation that Avista Utilities would default and fail to make payment to Avista Energy for an extended period of time. In light of Avista Utilities' recently reduced credit ratings, Avista Energy's banks are insisting on a provision in the Agreement to allow Avista Energy the option of termination of service in the unlikely event of extended non-payment. An amendment is being proposed to the Agreement to address this concern.

VII. PROGRESS REPORTS

Reports to the Commission:

The Company proposes to continue the quarterly reports to the Commission summarizing the activity and market indicators related to the Benchmark Mechanism and the Agency Agreement with Avista Energy.

Continuing Information Available to the Commission:

Avista Utilities and Avista Energy would continue to cooperate with Commission Staff on reviews of Avista Energy operations, on a confidential basis, as they relate to the Agency Agreement, including, but not limited to, responding to data requests and opening the Avista Energy books for Staff review.

Other:

The Company cannot fully anticipate all issues that may arise during the reporting period. The Company would report on any other available information throughout the reporting period that would contribute to the evaluation of the Benchmark Mechanism.

VIII. ACCOUNTING TREATMENT

The Company would continue the current accounting treatment of deferring the over or under collection of actual gas costs, incurred on the behalf of customers, to FERC Account 191 for surcharge or refund to customers in the next PGA filing.

IX. COMPANY'S REQUEST

The Company requests that the Commission approve the extension of the Company's Benchmark Mechanism as modified, the proposed tariff schedule revisions, the accounting entries related to the mechanism, and such other approvals as may be necessary to effectuate these transactions.

Dated at Spokane, Washington this 7th day of November 2001.

AVISTA CORPORATION

Kelly Norwood

BY ______________________________
Kelly O. Norwood
Vice President, Energy Resources

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA UTILITIES FOR APPROVAL OF THE)
NATURAL GAS BENCHMARK MECHANISM)

ATTACHMENT A

SUMMARY OF CURRENT NATURAL GAS BENCHMARK MECHANISM
BENEFITS TO CUSTOMERS

Summary of Current Natural Gas Benchmark Mechanism
Benefits to Customers
Inception through August 31, 2001
State of Idaho

Month	Benchmark Component	A&G Savings	Total
Sep-99	$ 168,250	$ 2,942	$ 171,192
Oct-99	$ 168,250	$ 2,942	$ 171,192
Nov-99	$ 168,250	$ 2,942	$ 171,192
Dec-99	$ 168,250	$ 2,942	$ 171,192
Jan-00	$ 168,250	$ 2,942	$ 171,192
Feb-00	$ 168,250	$ 2,942	$ 171,192
Mar-00	$ 168,250	$ 2,942	$ 171,192
Apr-00	$ 168,250	$ 2,942	$ 171,192
May-00	$ 168,250	$ 2,942	$ 171,192
Jun-00	$ 168,250	$ 2,942	$ 171,192
Jul-00	$ 168,250	$ 2,942	$ 171,192
Aug-00	$ 168,250	$ 2,942	$ 171,192
Sep-00	$ 168,250	$ 2,942	$ 171,192
Oct-00	$ 168,250	$ 2,942	$ 171,192
Nov-00	$ 168,250	$ 2,942	$ 171,192
Dec-00	$ 168,250	$ 2,942	$ 171,192
Jan-01	$ 168,250	$ 2,942	$ 171,192
Feb-01	$ 168,250	$ 2,942	$ 171,192
Mar-01	$ 168,250	$ 2,942	$ 171,192
Apr-01	$ 168,250	$ 2,942	$ 171,192
May-01	$ 168,250	$ 2,942	$ 171,192
Jun-01	$ 168,250	$ 2,942	$ 171,192
Jul-01	$ 168,250	$ 2,942	$ 171,192
Aug-01	$ 168,250	$ 2,942	$ 171,192
Total	**$ 4,038,000**	**$ 70,608**	**$ 4,108,608**

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA UTILITIES FOR APPROVAL OF THE)
NATURAL GAS BENCHMARK MECHANISM)

ATTACHMENT B

SUMMARY OF CURRENT NATURAL GAS BENCHMARK MECHANISM
BENEFITS TO AVISTA ENERGY

Summary of Current Natural Gas Benchmark Mechanism to Avista Energy From Inception of Benchmark Mechanism through August 31, 2001 State of Idaho

Month	ID Off-System Sales Margins	ID Capacity Release	Less: ID Benchmark Guarantee	Avista Energy ID Benefit
Sep-99	$ 27,663	$ 118,861	$ 168,250	$ (21,726)
Oct-99	$ 8,640	$ 120,733	$ 168,250	$ (38,877)
Nov-99	$ 10,892	$ 126,644	$ 168,250	$ (30,714)
Dec-99	$ (7,067)	$ 139,820	$ 168,250	$ (35,497)
Jan-00	$ 18,181	$ 126,924	$ 168,250	$ (23,144)
Feb-00	$ 3,191	$ 128,798	$ 168,250	$ (36,261)
Mar-00	$ 2,071	$ 137,488	$ 168,250	$ (28,690)
Apr-00	$ 17,629	$ 102,740	$ 168,250	$ (47,880)
May-00	$ 16,960	$ 108,753	$ 168,250	$ (42,538)
Jun-00	$ 31,701	$ 112,807	$ 168,250	$ (23,742)
Jul-00	$ 60,544	$ 109,807	$ 168,250	$ 2,101
Aug-00	$ 23,833	$ 109,236	$ 168,250	$ (35,181)
Sep-00	$ 151,906	$ 103,281	$ 168,250	$ 86,936
Oct-00	$ 124,600	$ 113,566	$ 168,250	$ 69,916
Nov-00	$ 1,723,978	$ 106,839	$ 168,250	$ 1,662,567
Dec-00	$ 1,394,741	$ 115,769	$ 168,250	$ 1,342,259
Jan-01	$ 205,707	$ 121,028	$ 168,250	$ 158,484
Feb-01	$ 97,252	$ 113,364	$ 168,250	$ 42,366
Mar-01	$ 23,769	$ 130,212	$ 168,250	$ (14,269)
Apr-01	$ 104,989	$ 108,536	$ 168,250	$ 45,275
May-01	$ 264,792	$ 121,903	$ 168,250	$ 218,445
Jun-01	$ 72,135	$ 102,711	$ 168,250	$ 6,596
Jul-01	$ 48,969	$ 104,487	$ 168,250	$ (14,794)
Aug-01	$ 59,384	$ 114,945	$ 168,250	$ 6,079
Total	**$ 4,486,460**	**$ 2,799,252**	**$ 4,038,000**	**$ 3,247,712**

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF	)
AVISTA UTILITIES FOR APPROVAL OF THE	)
NATURAL GAS BENCHMARK MECHANISM	)

ATTACHMENT C

COMPARISON OF NATURAL GAS BENCHMARK MECHANISM:
CURRENT VS. MODIFIED

Avista Utilities - IDAHO
Comparison of Natural Gas Benchmark Mechanism: Current VS Modified

Notes		Current Mechanism	Modified Mechanism
	Commodity Component:		
	Weighting for Supply Basins	Natural Gas Supply Basins AECO 50% / Sumas 25% / Rockies 25%	Natural Gas Supply Basins AECO 50% / Sumas 25% / Rockies 25%
	Index Adder (Fixed) - $/Dekatherm	$0.0500	$0.0500
(1)	Tiered Commodity program:		
	(1) Long Term average usage hedged (JP included)		49%
	(2) First Of Month (FOM) index on average		46.6% (70/30 % probability level)
	(3) Gas Daily (GD) and use of JP and Plymouth storage facilities		4.4%
	JP Storage Component		
	Synthetic Withdrawal Cycle	Nov - April	Nov - Mar
	Injections	May - Sept	May - Sept
		100 % Cycle	100 % Cycle
	Capacity Release/Off-System Sales Component		
(2)	Capacity Release and Off-System Sales Benchmark - Annual	($2,019,000) / yr	($1,057,000) / yr
	- The Capacity Release/Off-System Sales Benchmark is guaranteed to customers on an annual basis		
	- Actual Capacity Rel/Off-Syst Sales margins in excess of the Benchmark - sharing		80% Customer / 20% Avista Energy
	Credit for A&G Cost Savings		
	A&G Cost Savings	$35,300 annually for ID	$35,300 annually for ID

(1) Hedging schedule includes JP Synthetic schedule - summer/winter differential
-really hedging 30% with fixed price contracts, 13% synthetic schedule
-Based on: 5 yr historical avgs
-for days >95% confidence interval (to cover peak days), satisfy requirement out of storage-1st out of JP, then Plymouth at WACOG (NOV/20 to Feb/10)
(2) Capacity Release/Off System Sales component adjusted for load growth and pipeline pricing annually April 1.

Attachment C

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA UTILITIES FOR APPROVAL OF THE)
NATURAL GAS BENCHMARK MECHANISM)

ATTACHMENT D

NATURAL GAS BENCHMARK MECHANISM
TABLE EXAMPLES FOR TIERED COMMODITY PROGRAM

Table Examples for Tiered Commodity Program
Table A

System (WA/ID) Tiered Commodity Hedging Program
Volumes for each month for the period April 2002 - March 2003

	January	February	March	April	May	June
Synthetic - Storage Withdrawal/(Injection)	24,403	23,958	2,967	-	(7,465)	(17,800)
Fixed Price Purchase	60,000	50,000	40,000	20,000	10,000	10,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	84,403	73,958	42,967	20,000	10,000	10,000
Min Load *	93,939	82,435	48,761	26,634	26,419	30,408
FOM Low Range	116,000	105,000	79,000	51,000	38,000	40,000
Average Load *	125,573	113,481	88,438	61,700	46,969	43,913
FOM High Range (max Tier 2 Load)	135,000	122,000	97,000	72,000	56,000	48,000
Gas Daily (max Tier 3 Load**)	155,000	138,000				
Max Load *	199,350	157,082	121,889	106,893	90,797	67,972
	July	August	September	October	November	December
Synthetic - Storage Withdrawal/(Injection)	(17,226)	(17,226)	(11,570)		2,697	17,226
Fixed Price Purchase	10,000	10,000	10,000	20,000	30,000	70,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	10,000	10,000	10,000	20,000	32,697	87,226
Min Load *	32,501	32,926	26,694	22,888	40,521	88,735
FOM Low Range	36,000	35,000	33,000	49,000	82,000	113,000
Average Load *	37,685	36,712	38,974	56,361	94,183	126,517
FOM High Range (max Tier 2 Load)	40,000	38,000	45,000	64,000	107,000	140,000
Gas Daily (max Tier 3 Load**)				78,000	132,000	167,000
Max Load *	49,856	49,532	82,399	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.

Average Commodity Price Exposure

	Synthetic	8.60%
	Fixed Price	40.37%
Teir 1	Total	48.98%
Teir 2	FOM Index	48.44%
Teir 2	GD Sales	-1.80%
Teir 3	GD Buy	3.98%
Teir 4	Above 95%	0.41%
Total		100.01%

Table Examples for Tiered Commodity Program
Table B

<u>Table B</u>, is an example of how the tiered purchases would be determined for the month of January.

<u>TABLE B</u>
Example Calculations:

	January
Synthetic - Storage Withdrawal/(Injection)	24,403
Fixed Price Purchase	60,000
Fixed Price/Synthetic Total (max Tier 1 Load)	84,403
Min Load	93,939
FOM Low Range	116,000
Average Load	125,573
FOM High Range (max Tier 2 Load)	135,000
Gas Daily (max Tier 3 Load)	155,000
Max Load	199,350

	Scenario 1	Scenario 2	Scenario 3
70% Level	160,000,000 Load		
30% Level		120,000 Load	
Fixed Price Level			95,000 Load

(Note: All prices would also include the $.05 Index Adder.)

Pricing for Scenario 1

Total cost of gas for day = (60,000 * Fixed Price WACOG) + (24,403 * Storage WACOG) + ((135,000 – 60,000 – 24,403) * FOM WACOG) + ((155,000 – 135,000) * GD Index) + (160,000-155,000 = from JP Storage)

Pricing for Scenario 2

Total cost of gas for day = (60,000 * Fixed Price WACOG) + (24,403 * Storage WACOG) + ((120,000 – 60,000 – 24,403) * FOM WACOG)

Pricing for Scenario 3

Total cost of gas for day = (60,000 * Fixed Price WACOG) + (24,403 * Storage WACOG) + ((116,000 – 60,000 – 24,403) * FOM WACOG) - ((116,000 – 95,000) * GD Index)

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA UTILITIES FOR APPROVAL OF THE)
NATURAL GAS BENCHMARK MECHANISM)

ATTACHMENT E

NATURAL GAS BENCHMARK MECHANISM
CAPACITY RELEASE/OFF-SYSTEM SALES BENCHMARK

Natural Gas Benchmark Mechanism
Capacity Release/Off-System Sales Benchmark
State of Idaho

Month		Capacity Release Margin Credit (000's)		Off-System Sales Margin Credit (000's)		System Total (000's)
Jan-97	$	459		149	$	608
Feb-97	$	425		51	$	476
Mar-97	$	494		13	$	507
Apr-97	$	372		146	$	518
May-97	$	424		216	$	640
Jun-97	$	395		186	$	581
Jul-97	$	446		247	$	693
Aug-97	$	287		373	$	660
Sep-97	$	279		636	$	915
Oct-97	$	376		361	$	737
Nov-97	$	476		349	$	825
Dec-97	$	493		454	$	947
Jan-98	$	519		288	$	807
Feb-98	$	454		533	$	987
Mar-98	$	434		545	$	979
Apr-98	$	523		400	$	923
May-98	$	526		210	$	736
Jun-98	$	479		268	$	747
Jul-98	$	483		563	$	1,046
Aug-98	$	376		411	$	787
Sep-98	$	384		427	$	811
Oct-98	$	459		321	$	780
Nov-98	$	469		280	$	749
Dec-98	$	425		534	$	959
Total	$	10,457	$	7,961	$	18,418

Jackson Prairie Westcoast Deal	**$**	**1,532**
Subtotal	$	16,886
Diveded by 2		/ 2
Average Annual Capacity Release/Off-System Sales for 24 Months	$	8,443
Adjustment for Load Growth	$	(530)
Adjustment for Pipeline Rates	$	(278)
Adjustment for Nova Capacity	$	39
Subtotal Capacity Release/Off-System Sales	$	7,674
Benchmark %		50%
Capacity Release/Off-System Sales Benchmark		3,837
Idaho Share		27.54%
Idaho Benchmark		**1,057**

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA UTILITIES FOR APPROVAL OF THE)
NATURAL GAS BENCHMARK MECHANISM)

ATTACHMENT F

NATURAL GAS BENCHMARK MECHANISM
PROPOSED TARIFF SCHEDULE 163

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 163

Natural Gas Benchmark Mechanism

APPLICABILITY:

The calculation of the monthly Natural Gas Benchmark described herein will establish the natural gas costs for Purchase Gas Adjustment (PGA) deferral purposes. The difference between the monthly Gas Benchmark costs and the costs included in Customers' rates for the respective month will be deferred. This difference in gas costs will be refunded or surcharged to Customers under Schedule 155 - Gas Rate Adjustment.

PURPOSE:

The Natural Gas Benchmark Mechanism will provide an incentive to the Company to minimize natural gas costs. Natural gas cost savings for Customers on sales service schedules are built into the Gas Benchmark Mechanism and are not dependent on the performance of the Company in purchasing natural gas. Benefits to shareholders from the Mechanism are performance based and are dependent on the success of the Company in acquiring natural gas at costs at or below the Benchmark.

TERM:

The Benchmark Mechanism described herein shall become effective April 1, 2002, and shall remain in effect for a three-year period, until March 31, 2005. The Mechanism shall continue in effect year-to-year thereafter, subject to modification or termination upon six months prior written notice by the Company, Avista Energy, or the Commission.

DEFINITIONS:

1. First of the Month (FOM) Weighted Average Index Price: The weighted average of the published index prices for gas available to the Company at the following three Basins: Sumas (British Columbia), AECO-C (Alberta), and Rockies (Domestic). The price at each Basin will 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 areas. The published index prices will be weighted based on percentages that are representative of Company gas supplies and transportation available from each Basin. These percentages will be fixed, for the term of the Benchmark Mechanism, at 50% AECO, 25% SUMAS, and 25% ROCKIES.

2. Gas Daily (GD) Weighted Average Index Price: The weighted average of the published daily index prices for the three supply basins 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.

SCHEDULE 163 - continued

3. Commodity Index Adder: A fixed amount, expressed in cents per dekatherm, that will be added to the Weighted Average Index Price. The Index Adder will be fixed, at $0.05 per dekatherm, for the term of the Benchmark Mechanism.

4. Jackson Prairie (JP) Storage Component: Customers receive cost savings from Company injections of gas into Jackson Prairie Storage during the, generally, lower-cost spring and summer months and withdrawals of gas during the higher-cost winter months. The JP Storage Component of the Gas Benchmark includes a Benchmark JP Storage injection and withdrawal schedule that is designed to continue to provide Customers with the benefits associated with JP Storage. The schedule will be fixed for the term of the Benchmark Mechanism. The schedule for (withdrawals) and injections are Jan (860,000), Feb (810,000), Mar (100,000), Apr 0, May 260,000, Jun 610,000, Jul 610,000, Aug 610,000, Sep 390,000, Oct 0, Nov (100,000), and Dec 610,000) dekatherms.

5. Pipeline Capacity Release/Off-System Sales Component (Pipeline Benchmark): This component includes net revenues associated with pipeline capacity releases and sales of natural gas for resale using the Company's transportation system. The Pipeline Benchmark shall be fixed at an annual level of $1,057,000. This fixed amount shall be adjusted annually for customer load growth, pipeline pricing, and other known changes that affect the revenues and expenses associated with this component.

6. Administrative Cost Savings: Through consolidation of natural gas procurement operations, the Company will achieve administrative cost savings. The Gas Benchmark Mechanism will flow these benefits through to sales Customers. The level of annual Administrative Cost Savings will be fixed for the term of the Benchmark Mechanism at $35,300 per year, or until the cost savings are reflected in rates through a rate proceeding.

CALCULATION OF MONTHLY GAS BENCHMARK FOR DEFERRAL PURPOSES:

The Company will maintain a PGA Balancing Account whereby monthly entries into this Balancing Account will be made to reflect differences between the actual purchased gas costs collected from customers and the purchased gas costs determined under this Schedule 163 - Natural Gas Benchmark Mechanism.

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 163 - continued

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 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 System (WA/ID) daily volumes for each month for the period April 2002 – March 2003 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 the withdrawal of storage gas under the JP synthetic 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 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 20th through February 10th, at that time Tier 4 pricing would apply.

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 163 - continued

Tier 4 - Customer usage that exceeds the maximum daily usage level under Tier 3 for the period from November 20th through February 10th will be supplied through the use of the Company's Jackson Prairie and Plymouth storage facilities. 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 of Gas for 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)	24,403	23,958	2,967	-	(7,465)	(17,800)
Fixed Price Purchase	60,000	50,000	40,000	20,000	10,000	10,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	84,403	73,958	42,967	20,000	10,000	10,000
Min Load *	93,939	82,435	48,761	26,634	26,419	30,408
FOM Low Range	116,000	105,000	79,000	51,000	38,000	40,000
Average Load *	125,573	113,481	88,438	61,700	46,969	43,913
FOM High Range (max Tier 2 Load)	135,000	122,000	97,000	72,000	56,000	48,000
Gas Daily (max Tier 3 Load**)	155,000	138,000				
Max Load *	199,350	157,082	121,889	106,893	90,797	67,972

	July	August	September	October	November	December
Synthetic - Storage Withdrawal/(Injection)	(17,226)	(17,226)	(11,570)		2,697	17,226
Fixed Price Purchase	10,000	10,000	10,000	20,000	30,000	70,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	10,000	10,000	10,000	20,000	32,697	87,226
Min Load *	32,501	32,926	26,694	22,888	40,521	88,735
FOM Low Range	36,000	35,000	33,000	49,000	82,000	113,000
Average Load *	37,685	36,712	38,974	56,361	94,183	126,517
FOM High Range (max Tier 2 Load)	40,000	38,000	45,000	64,000	107,000	140,000
Gas Daily (max Tier 3 Load)				78,000	132,000	167,000
Max Load *	49,856	49,532	82,399	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.

2. JP Storage Component: 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 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.

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 163 - continued

3. Transportation Costs: Total Company pipeline transportation and storage reservation costs will be included for deferral purposes.

4. Capacity Release/Off-System Sales Component: Natural gas costs will be reduced by the monthly Gas Benchmark Capacity Release/Off-System Sales benefit. 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. Idaho Customers shall receive a minimum of the Pipeline Benchmark amount of $1,057,000 on an annualized basis. This amount may be adjusted each April 1st during the term of the Benchmark for customer growth and other known changes. The Company will notify the Commission, in writing, on or before March 1st of each year of any proposed changes to the Benchmark amount. The Commission shall review the new proposed amount and notify the Company of its decision on or before April 1st of each year.
b. Actual capacity release and off-system sales benefits shall be accumulated for the April through March period each year. Following March 31st, the actual annual capacity release and off-system sales margins shall be compared with the Pipeline Benchmark, and the actual margins in excess of the Pipeline Benchmark shall be shared 80% to Customers and 20% to Avista Energy
c. Actual Capacity Release margins shall be equal to the actual margin allocable to the Idaho jurisdiction, associated with the release of the Avista Utilities' (WA/ID Division) capacity on a transaction by transaction basis.
b. 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. Idaho Customers shall receivê an allocated share based on a system contract demand allocator.

5. Administrative Cost Savings: Natural gas costs will be reduced by the fixed monthly Administrative Cost Savings benefit until the cost savings are reflected in rates through a rate proceeding.

6. The difference between the monthly Gas Benchmark costs, as described immediately above, and the costs included in Customers' rates for the respective month will be deferred to Account 191.41 for later refund or surcharge to Customers under Schedule 155 - Gas Rate Adjustment.

SCHEDULE 163 – continued

STANDARDS FOR COMPETITIVE PRACTICES

1. GENERAL

For the term of the Agency Agreement between Avista Utilities and Avista Energy, these standards for competitive practices apply to transactions, direct or indirect, between Avista Utilities, its customers, and its affiliate, Avista Energy, acting in its capacity as an agent for procurement and management of natural gas supplies, transportation and storage services.

2. CONDITIONS FOR COMPETITIVE PRACTICES

2.1 Any solicitation of proposals by Avista Utilities for the purchasing of the utility's natural gas supply or transportation, or both, shall be on a non-preferential and non-discriminatory basis.

2.2 Avista Utilities shall apply its tariff provisions in a non-preferential and non-discriminatory manner.

2.3 Scheduling, balancing, metering, storage, standby service, curtailment policy, or other services must be provided in a non-preferential and non-discriminatory manner.

2.4 Avista Utilities shall process all requests for transportation or other gas related services in a non-preferential and non-discriminatory manner.

2.5 Avista Utilities shall not speak on behalf of its marketing affiliate in any and all contacts or communications with customers or potential customers. An Avista Utilities' employee may not indicate to any customer or others that any advantage may accrue to that customer or others in the use of its marketing affiliate's services.

3. SUPPLY, TRANSPORTATION AND STORAGE

3.1 Avista Utilities may choose to have an agent perform the functions of natural gas procurement, related transportation, and storage services. The agent may negotiate supply contracts with producers and marketers on behalf of Avista Utilities and provide certain load-balancing, dispatching, and nominating services. As part of the nominating services, the agent will absorb any penalties incurred as a result of not nominating or acquiring the amount of gas requested by Avista Utilities.

3.2 Avista Utilities shall maintain a position with responsibility to monitor the agency agreement and provide oversight and guidance to determine acquisitions or dispositions of long-term supply, transportation and storage.

SCHEDULE 163 – continued

4. GAS MARKETING

4.1 Without the prior written consent of the customer, Avista may not disclose to its gas marketing affiliate or any other market participant any non-public, customer-specific information that it has from any of the following:

- A customer or gas supplier,
- A potential customer or gas supplier,
- An agent of a customer or gas supplier or potential customer or gas supplier,
- A marketer or other supply entity seeking to supply gas to a customer or potential customer that is located in the utility's service territory.

Avista Utilities shall not solicit the release of non-public information and data exclusively for its own affiliate.

4.2 If a customer requests information about marketers from Avista Utilities, Avista Utilities shall inform the customer that the Idaho Public Utilities Commission (Commission) maintains a registry of marketers known to be operating on the system.

4.3 Avista Utilities shall put in place internal procedures assuring that a customer electing to obtain gas supply or pipeline capacity from other than the utility, may do so without disclosure to parties, other than the utility or pipeline, of the customer's receipt and delivery points for their gas supply and /or pipeline capacity.

5. PERSONNEL AND RECORDS

5.1 The gas marketing affiliate shall be a separately incorporated entity and physically separated from Avista Utilities, but may receive corporate-level support at the utility's full-embedded cost of providing such service.

5.2 An employee shared by Avista Utilities and its marketing affiliate shall record time in a manner consistent with good regulatory accounting practices.

5.3 The marketing affiliate's books of accounts and records shall be kept separate from Avista Utilities' books. Aggregated information that is not market-sensitive may be transferred to or from Avista Utilities and to or from its marketing affiliate for corporate financial accounting, control, and reporting purposes.

5.4 Avista Utilities shall keep or cause to be kept documentation, for such period of time as required by the Commission, so that the utility's activities can be audited.

SCHEDULE 163 – continued

6. COMPLAINT PROCEDURE

6.1 If any competitive gas supplier, marketer or customer believes Avista Utilities has violated the Standards for Competitive Practices, that competitor or supplier may file a complaint in writing with Avista Utilities. Avista Utilities shall respond in writing to the complaint within 21 business days after receipt of the complaint. Avista Utilities must offer to meet with the complaining party within 14 days after the response to resolve any remaining issues and must notify the complainant of his or her right to complain to the Commission if not satisfied.

6.2 Avista Utilities shall maintain a log of all new, resolved and pending complaints alleging violations of the Standards for Competitive Practices and make the log available to the Commission upon request. The log shall include the date each complaint was received; the complainant's name, address and telephone number; a written description of the complaint; and the resolution of the complaint or reason why the complaint is still pending.

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 163

Natural Gas Benchmark Mechanism

APPLICABILITY:

The calculation of the monthly Natural Gas Benchmark described herein will establish the natural gas costs for Purchase Gas Adjustment (PGA) deferral purposes. The difference between the monthly Gas Benchmark costs and the costs included in Customers' rates for the respective month will be deferred. This difference in gas costs will be refunded or surcharged to Customers under Schedule 155 - Gas Rate Adjustment.

PURPOSE:

The Natural Gas Benchmark Mechanism will provide an incentive to the Company to minimize natural gas costs. Natural gas cost savings for Customers on sales service schedules are built into the Gas Benchmark Mechanism and are not dependent on the performance of the Company in purchasing natural gas. Benefits to shareholders from the Mechanism are performance based and are dependent on the success of the Company in acquiring natural gas at costs at or below the Benchmark.

TERM:

The Benchmark Mechanism ~~will be implemented on an experimental basis for approximately a three (3) year period beginning~~ described herein shall become effective April 1, 2002, and shall remain in effect for a three-year period, until March 31, 2005. The Mechanism shall continue in effect year-to-year thereafter, subject to modification or termination upon six months prior written notice by the Company, Avista Energy, or the Commission. ~~on the first day of the calendar month following receipt by the Company of necessary regulatory approvals. and execution of the Agency Agreement between the Company and Avista Energy. The experiment will end on March 31, 2002. The Company may seek continuation of the authorization for the Benchmark Mechanism with six months notice prior to the end of the experimental term.~~

DEFINITIONS:

1. First of the Month (FOM) Weighted Average Index Price: The weighted average of the published index prices for gas available to the Company at the following three Basins: Sumas (British Columbia), AECO-C (Alberta), and Rockies (Domestic). The price at each Basin will 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 areas. The published index prices will be weighted based on percentages that are representative of Company gas supplies and transportation available from each Basin. These percentages will be fixed, for the term of the ~~experiment~~ Benchmark Mechanism, at 50% AECO, 25% SUMAS, and 25% ROCKIES.

2. Gas Daily (GD) Weighted Average Index Price: The weighted average of the published daily index prices for the three supply basins 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.

AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 163 - continued

3. Commodity Index Adder: A fixed amount, expressed in cents per dekatherm, that will be added to the Weighted Average Index Price. The Index Adder will be fixed, at $0.~~0~~05 per dekatherm, for the term of the ~~experiment~~ Benchmark Mechanism.

4. Jackson Prairie (JP) Storage Component: Customers receive cost savings from Company injections of gas into Jackson Prairie Storage during the, generally, lower-cost spring and summer months and withdrawals of gas during the higher-cost winter months. The JP Storage Component of the Gas Benchmark includes a Benchmark JP Storage injection and withdrawal schedule that is designed to continue to provide Customers with the benefits associated with JP Storage. The schedule will be fixed for the term of the ~~experiment~~ Benchmark Mechanism. The schedule for (withdrawals) and injections are Jan (~~850,000)~~ (860,000), Feb (~~500,000)~~ (810,000), Mar (~~300,000)~~ (100,000), ~~Apr (100,000),~~ May 260,000, Jun ~~600,000~~ 610,000, Jul ~~600,000~~ 610,000, Aug ~~600,000~~ 610,000, Sep 390,000, Oct 0, Nov (100,000), and Dec (~~600,000~~ 610,000) dekatherms.

5. Pipeline Capacity Release/Off-System Sales Component (Pipeline Benchmark): This component includes net revenues associated with pipeline capacity releases and sales of natural gas for resale using the Company's transportation system. The Pipeline Benchmark shall be fixed at an annual level of $1,057,000. This fixed amount shall be adjusted annually for customer load growth, pipeline pricing, and other known changes that affect the revenues and expenses associated with this component.

6. Administrative Cost Savings: Through consolidation of natural gas procurement operations, the Company will achieve administrative cost savings. The Gas Benchmark Mechanism will flow these benefits through to sales Customers. ~~during the experimental period.~~ The level of annual Administrative Cost Savings will be fixed~~, for the term of the experiment,~~ for the term of the Benchmark Mechanism at $35,300 per year, or until the cost savings are reflected in rates through a rate proceeding.

CALCULATION OF MONTHLY GAS BENCHMARK FOR DEFERRAL PURPOSES:

The Company will maintain a PGA Balancing Account whereby monthly entries into this Balancing Account will be made to reflect differences between the actual purchased gas costs collected from customers and the purchased gas costs determined under this Schedule 163 - Natural Gas Benchmark Mechanism.

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SCHEDULE 163 - continued

~~1. Commodity Costs: Each month the Company will calculate the Weighted Average Index Price. The Weighted Average Index Price plus the Index Adder will be multiplied times dekatherms purchased for the respective month to arrive at total commodity gas costs. The following adjustment will be made to the commodity gas costs:~~

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 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 System (WA/ID) daily volumes for each month for the period April 2002 – March 2003 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 the withdrawal of storage gas under the JP synthetic 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 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 usage occurs during the period November 20th through February 10th, at that time Tier 4 pricing would apply.

SCHEDULE 163 - continued

Tier 4 - Customer usage that exceeds the maximum daily usage level under Tier 3 for the period from November 20th through February 10th will be supplied through the use of the Company's Jackson Prairie and Plymouth storage facilities. 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 of Gas for 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)	24,403	23,958	2,967	-	(7,465)	(17,800)
Fixed Price Purchase	60,000	50,000	40,000	20,000	10,000	10,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	84,403	73,958	42,967	20,000	10,000	10,000
Min Load *	93,939	82,435	48,761	26,634	26,419	30,408
FOM Low Range	116,000	105,000	79,000	51,000	38,000	40,000
Average Load *	125,573	113,481	88,438	61,700	46,969	43,913
FOM High Range (max Tier 2 Load)	135,000	122,000	97,000	72,000	56,000	48,000
Gas Daily (max Tier 3 Load**)	155,000	138,000				
Max Load *	199,350	157,082	121,889	106,893	90,797	67,972

	July	August	September	October	November	December
Synthetic - Storage Withdrawal/(Injection)	(17,226)	(17,226)	(11,570)		2,697	17,226
Fixed Price Purchase	10,000	10,000	10,000	20,000	30,000	70,000
Fixed Price/Synthetic Withdrawal Total (max Tier 1 Load)	10,000	10,000	10,000	20,000	32,697	87,226
Min Load *	32,501	32,926	26,694	22,888	40,521	88,735
FOM Low Range	36,000	35,000	33,000	49,000	82,000	113,000
Average Load *	37,685	36,712	38,974	56,361	94,183	126,517
FOM High Range (max Tier 2 Load)	40,000	38,000	45,000	64,000	107,000	140,000
Gas Daily (max Tier 3 Load)				78,000	132,000	167,000
Max Load *	49,856	49,532	82,399	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.

2. JP Storage Component: 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 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.

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SCHEDULE 163 - continued

3. Transportation Costs: Total Company pipeline transportation and storage reservation costs will be included for deferral purposes.

4. Capacity Release/Off-System Sales Component: Natural gas costs will be reduced by the monthly Gas Benchmark Capacity Release/Off-System Sales benefit. 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. Idaho Customers shall receive a minimum of the Pipeline Benchmark amount of $1,057,000 on an annualized basis. This amount may be adjusted each April 1st during the term of the Benchmark for customer growth and other known changes. The Company will notify the Commission, in writing, on or before March 1st of each year of any proposed changes to the Benchmark amount. The Commission shall review the new proposed amount and notify the Company of its decision on or before April 1st of each year.

b. Actual capacity release and off-system sales benefits shall be accumulated for the April through March period each year. Following March 31st, the actual annual capacity release and off-system sales margins shall be compared with the Pipeline Benchmark, and the actual margins in excess of the Pipeline Benchmark shall be shared 80% to Customers and 20% to Avista Energy

c. Actual Capacity Release margins shall be equal to the actual margin allocable to the Idaho jurisdiction, associated with the release of the Avista Utilities' (WA/ID Division) capacity on a transaction by transaction basis.

b. 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. Idaho Customers shall receive an allocated share based on a system contract demand allocator.

5. Administrative Cost Savings: Natural gas costs will be reduced by the fixed monthly Administrative Cost Savings benefit until the cost savings are reflected in rates through a rate proceeding.

6. The difference between the monthly Gas Benchmark costs, as described immediately above, and the costs included in Customers' rates for the respective month will be deferred to Account 191.41 for later refund or surcharge to Customers under Schedule 155 - Gas Rate Adjustment.

SCHEDULE 163 – continued

STANDARDS FOR COMPETITIVE PRACTICES

1. GENERAL

For the term of the Agency Agreement between Avista Utilities and Avista Energy, these standards for competitive practices apply to transactions, direct or indirect, between Avista Utilities, its customers, and its affiliate, Avista Energy, acting in its capacity as an agent for procurement and management of natural gas supplies, transportation and storage services.

2. CONDITIONS FOR COMPETITIVE PRACTICES

2.1 Any solicitation of proposals by Avista Utilities for the purchasing of the utility's natural gas supply or transportation, or both, shall be on a non-preferential and non-discriminatory basis.

2.2 Avista Utilities shall apply its tariff provisions in a non-preferential and non-discriminatory manner.

2.3 Scheduling, balancing, metering, storage, standby service, curtailment policy, or other services must be provided in a non-preferential and non-discriminatory manner.

2.4 Avista Utilities shall process all requests for transportation or other gas related services in a non-preferential and non-discriminatory manner.

2.5 Avista Utilities shall not speak on behalf of its marketing affiliate in any and all contacts or communications with customers or potential customers. An Avista Utilities' employee may not indicate to any customer or others that any advantage may accrue to that customer or others in the use of its marketing affiliate's services.

3. SUPPLY, TRANSPORTATION AND STORAGE

3.1 Avista Utilities may choose to have an agent perform the functions of natural gas procurement, related transportation, and storage services. The agent may negotiate supply contracts with producers and marketers on behalf of Avista Utilities and provide certain load-balancing, dispatching, and nominating services. As part of the nominating services, the agent will absorb any penalties incurred as a result of not nominating or acquiring the amount of gas requested by Avista Utilities.

3.2 Avista Utilities shall maintain a position with responsibility to monitor the agency agreement and provide oversight and guidance to determine acquisitions or dispositions of long-term supply, transportation and storage.

SCHEDULE 163 – continued

4. GAS MARKETING

4.1 Without the prior written consent of the customer, Avista may not disclose to its gas marketing affiliate or any other market participant any non-public, customer-specific information that it has from any of the following:

- A customer or gas supplier,
- A potential customer or gas supplier,
- An agent of a customer or gas supplier or potential customer or gas supplier,
- A marketer or other supply entity seeking to supply gas to a customer or potential customer that is located in the utility's service territory.

Avista Utilities shall not solicit the release of non-public information and data exclusively for its own affiliate.

4.2 If a customer requests information about marketers from Avista Utilities, Avista Utilities shall inform the customer that the Idaho Public Utilities Commission (Commission) maintains a registry of marketers known to be operating on the system.

4.3 Avista Utilities shall put in place internal procedures assuring that a customer electing to obtain gas supply or pipeline capacity from other than the utility, may do so without disclosure to parties, other than the utility or pipeline, of the customer's receipt and delivery points for their gas supply and /or pipeline capacity.

5. PERSONNEL AND RECORDS

5.1 The gas marketing affiliate shall be a separately incorporated entity and physically separated from Avista Utilities, but may receive corporate-level support at the utility's full-embedded cost of providing such service.

5.2 An employee shared by Avista Utilities and its marketing affiliate shall record time in a manner consistent with good regulatory accounting practices.

5.3 The marketing affiliate's books of accounts and records shall be kept separate from Avista Utilities' books. Aggregated information that is not market-sensitive may be transferred to or from Avista Utilities and to or from its marketing affiliate for corporate financial accounting, control, and reporting purposes.

5.4 Avista Utilities shall keep or cause to be kept documentation, for such period of time as required by the Commission, so that the utility's activities can be audited.

SCHEDULE 163 – continued

6. COMPLAINT PROCEDURE

6.1 If any competitive gas supplier, marketer or customer believes Avista Utilities has violated the Standards for Competitive Practices, that competitor or supplier may file a complaint in writing with Avista Utilities. Avista Utilities shall respond in writing to the complaint within 21 business days after receipt of the complaint. Avista Utilities must offer to meet with the complaining party within 14 days after the response to resolve any remaining issues and must notify the complainant of his or her right to complain to the Commission if not satisfied.

6.2 Avista Utilities shall maintain a log of all new, resolved and pending complaints alleging violations of the Standards for Competitive Practices and make the log available to the Commission upon request. The log shall include the date each complaint was received; the complainant's name, address and telephone number; a written description of the complaint; and the resolution of the complaint or reason why the complaint is still pending.