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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION REQUESTING APPROVAL OF A NATURAL GAS TRANSPORTATION SERVICE AGREEMENT	)	**CASE NO. AVU-G-07-1**
	)	**COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Cecelia A. Gassner, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure in Order No. 30271 issued on March 13, 2007, submits the following comments.

BACKGROUND

On February 20, 2007, Avista Corporation ("Avista" or "Company") filed an Application with the Commission requesting approval of a Natural Gas Transportation Service Agreement (the "Agreement") between the Company and Potlatch Forest Products Corporation ("Potlatch"). According to the Application, Avista has been providing natural gas transportation service to Potlatch's Lewiston, Idaho plant under an existing agreement since 1993. During that time, Potlatch has increased its efficiency and reduced its annual natural gas consumption from 64 million therms to 38 million therms. In addition, Avista has seen considerable load growth in the

Moscow/Lewiston area and an increased need for pipeline capacity. Avista and Potlatch negotiated a capacity release agreement, and Potlatch expressed its desire to negotiate a new gas distribution agreement as well.

The initial term of the Agreement is ten years, beginning the day following Commission approval and ending November 30, 2016. The parties have agreed on charges based upon Potlatch's desire to pay Avista for distribution service in the future that more reasonably reflects the alternative cost of connecting directly to a different pipeline, and Avista's desire to retain a reasonable level of distribution charges. Based on Potlatch's usage in 2006, its annual bill under the existing agreement is $264,000. Under the Agreement, Potlatch would pay: $185,000 through November 2007; $150,000 from December 2007 through November 2008; $111,000 from December 2008 through November 2009; and $74,000 per annum from December 2009 through the end of the Agreement. The Company believes that the current and projected rate of growth it is experiencing in north Idaho should offset a portion of the lost revenue/margin received from Potlatch under the existing agreement.

STAFF ANALYSIS

Staff has reviewed the application and the proposed contract with Potlatch. Several issues were considered in order to determine whether, if approved, this contract will have consequences beyond the services provided to Potlatch. The Company's costs to serve as well as the existing contract were also reviewed.

The ability of Potlatch to secure a by-pass of the Company and be served directly from the interstate pipeline via third party contracts is an important issue influencing both the Company's negotiation of terms in the proposed contract and Staff's review of that contract. Potlatch, as a large user of natural gas, has the right to contract for supply of natural gas independent of the Company and to contract with Northwest Pipelines (NWPL) to deliver that gas to a nearby point. Because the pipeline is close to the Potlatch facility and there is an existing tap into the pipeline that could be used to supply Potlatch, a by-pass could be inexpensive and quickly completed. Of particular note is that the Company has imbedded (fixed) costs associated with serving Potlatch that will not go away, even if Potlatch is no longer a customer.

Staff's review of the financial contract terms was aimed at answering two questions – (1) does the revenue from the proposed contract pay for the variable costs of providing the service to Potlatch and, (2) if it does, what part of the Company's fixed costs allocated to that service is covered by the revenue margin over and above the variable costs of that service? The costs to Potlatch are a single Annual Delivery Charge that is paid monthly. Those annual charges, the variable cost of service (provided by the Company) and the resulting contribution to fixed costs for the life of the contract are presented in tabular format below.

Contract Dates	Annual Delivery Charge	Annual Variable Cost to Serve Potlatch[1]	Contribution to Fixed Costs
Dec 06-Nov 07	$185,000	$20,646	$164,354
Dec 07-Nov-08	$150,000	$21,265	$128,735
Dec 08-Nov 09	$111,000	$21,903	$89,097
Dec 09-Nov 10	$74,000	$22,560	$51,440
Dec 10-Nov 11	$74,000	$23,237	$50,763
Dec 11-Nov 12	$74,000	$23,934	$50,066
Dec 12-Nov 13	$74,000	$24,652	$49,348
Dec 13-Niv 14	$74,000	$25,392	$48,608
Dec 14-Nov 15	$74,000	$26,154	$47,846
Dec 15-Nov 16	$74,000	$26,938	$47,062

[1] An annual escalation of 3 percent is used.

Fixed costs associated with this service are all associated with the capital investment in the regulator station, short run of piping (100 feet) and odorizer used to serve Potlatch. This equipment is highly depreciated and has a low residual book value and therefore very low annual fixed costs. It is Staff's opinion that, given the negotiating position, the Company has negotiated an acceptable net contribution to fixed costs.

Staff evaluated other issues and inconsistencies when reviewing the proposed contract. Delivery points, as stated in the Application, are unclear when compared to the Agreement. The Application states that a dedicated Northwest Pipeline city gate serves Potlatch. In contrast, one paragraph of the contract identifies three separate delivery points. The actual situation is that, though Potlatch is served by a single city gate, the interstate pipeline transport capacities released by the Company to Potlatch are for delivery at three Lewiston area city gate locations. Potlatch, as addressed in the capacity release agreement between the Company and Potlatch, has responsibility to coordinate those three delivery capacities with Northwest Pipeline for delivery of the total capacity at the single city gate serving Potlatch.

Staff is satisfied that the Company's applicable liabilities to NWPL are assumed by Potlatch under the related capacity release agreement. Potlatch's use of the interstate pipeline capacity released to them by the Company requires that Potlatch take full responsibility for that capacity regardless of whether or not they use it. This includes all fees owed to NWPL for the capacity as well as remarketing of that capacity if it is not used.

Interruptability and curtailment addressed in the 1993 agreement are not included in the proposed Agreement. However, they are addressed as part of the capacity release agreement where the Company has the right to recall up to half of the released capacity to serve its core market in peak demand conditions.

According to the Agreement, Potlatch will perform the balancing needed for the delivery of gas to Avista. Any penalties resulting from Potlatch's failure to perform this balancing in a timely manner will be passed through to Potlatch. Staff believes these provisions of the new Agreement are reasonable.

STAFF RECOMMENDATION

Staff believes this Contract is in the best interest of both the Company and its customers. Staff recommends that the Commission approve the contract as proposed.

Respectfully submitted this 3rd day of April 2007.

Cecelia A. Gassner
Deputy Attorney General

Technical Staff: Harry Hall

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 3RD DAY OF APRIL 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-07-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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