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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF AVISTA)
CORPORATION'S "REVISED" APPLICATION) CASE NO. AVU-E-06-4
TO INCORPORATE REVISIONS TO TARIFF)
SCHEDULES 62 AND 70 AND THE ADDITION)
OF A NEW TARIFF SCHEDULE 63.)
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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. 30093 issued on July 7, 2006, submits the following comments.

BACKGROUND

On June 19, 2006, Avista Corporation ("Avista" or "Company") filed a revised Application with the Commission seeking authority to incorporate certain revisions into its tariff Schedules 62 and 70 and to add a new Schedule 63. Avista has requested approval of certain modifications to its tariff on file with the Commission. Schedule 62 of its tariff sets forth terms and conditions related to the Cogeneration and Small Power Production Schedule. According to the Application, the three areas of revision of the tariff are: (1) new tariff language on interconnection standards for net-metered projects less than 25 kW; (2) new and updated definitions for small power projects; and (3) housekeeping changes to clarify verbiage.

STAFF ANALYSIS

Daily Shape Adjustment

Probably the most significant proposed change is the introduction of a “Daily Shape Adjustment” that would apply to the published avoided cost rates for projects smaller than 10 aMW. The proposed Daily Shape Adjustment would create a difference between on-peak and off-peak avoided cost rates of \$5 per MWh. The Daily Shape Adjustment would be prorated based on two-thirds of the hours in a day being on-peak and one-third being off-peak. For example, if the published avoided cost rate is \$45.15 per MWh, the on-peak rate would be \$46.82 and the off-peak rate would be \$41.82 per MWh. Attachment A illustrates what the avoided cost rates would be with and without the Daily Shape Adjustment.

The effect of the proposed change would be that projects that generate more during on-peak hours would receive greater revenue than if no Daily Shape Adjustment was applied, and projects that generate more during off-peak hours would generate less revenue. Projects with a flat generation shape spread evenly throughout the day would receive the same revenue and be unaffected by the Daily Shape Adjustment.

For many years, both Avista and Idaho Power have applied “Seasonalization Factors” to the published rates that effectively increase avoided cost rates in some seasons of the year and decrease them in others. Seasonalization Factors have been employed as a means of recognizing that power delivered to the utility is more valuable or less valuable depending upon the particular time of year when it is delivered. Generally, power delivered in the summer and winter months, for example, is more valuable than power delivered in the spring and fall months, due mostly to water and load conditions. The proposed Daily Shape Adjustment follows the same logic but goes a step further in recognizing that the value of power varies not only on a seasonal basis, but on an hourly basis as well. Under Avista’s proposal, both the Daily Shape Adjustment and the existing Seasonalization Factors would be applied.

Like the Seasonalization Factors that have been used for many years, the proposed Daily Shape Adjustment is not a precise way to adjust avoided cost rates to reflect the value of power at the time of delivery. Instead, both mechanisms are rather crude adjustments that mostly just acknowledge that the value of power depends on the timing of its delivery. While neither adjustment mechanism is particularly accurate, both adjustments produce rates that are closer to real-time rates than if no adjustments were made. Avista believes that the proposed Daily Shape Adjustment provides a

measure of protection to the Company for power purchases that are not evenly delivered across all hours and provides incentive for power producers to deliver power during more valuable hours.

The proposed amount of \$5 per MWh as a Daily Shape Adjustment is a conservative estimate of the difference in value between on-peak and off-peak prices (the "spread"). Avista reports that historically the spread has been in the \$3 per MWh to \$6 per MWh range, but that recently the spread has increased. According to the Company, the average spread was \$5.31 per MWh, \$10.71 per MWh and \$9.10 per MWh in 2004, 2005, and the first 5 months of 2006 respectively. In its 2005 IRP, Avista assumed a spread of \$8.97 per MWh for the period 2007 through 2026. The Company states that current forward markets show an average spread of \$12.99 per MWh over the next 10 years. Avista believes that using a lower value of \$5 per MWh for the Daily Shape Adjustment is conservative and prevents the difference in avoided cost rates between off-peak spring hours and the annual unadjusted rate from becoming excessive.

One of Staff's concerns with a Daily Shape Adjustment is that it could introduce some uncertainty in the monthly payments a small power producer would receive because many small power producers have no way of accurately knowing how many kilowatt-hours their project will produce in on-peak vs. off-peak hours. A wind project, for example, is one type of project that could be most affected. Under the proposed Daily Shape Adjustment, a wind project would not only be faced with uncertainty about its monthly generation, but its daily generation as well. Historically, project developers have been quite opposed to anything that introduces greater uncertainty into monthly cash flows.

Another concern of Staff is the need for hourly metering capability at all future projects. Some existing projects, particularly if they are very small, do not have hourly metering capability. Avista assures Staff, however, that all future projects, regardless of size, will have hourly metering capability. In addition Avista assures Staff that the increased complexity of payment and recordkeeping for on-peak and off-peak generation will not be problematic.

Staff's final concern is that adoption of a Daily Shape Adjustment introduces additional complexity to an already fairly complex system of avoided cost rates. The additional complexity is certainly manageable for Avista and the Commission Staff, but it could cause some confusion with project developers.

Despite the concerns discussed above, Staff believes the advantages of a Daily Shape Adjustment outweigh the disadvantages. Staff is supportive of the concept of a daily shape adjustment because, although crude, it more closely matches avoided cost rates to the true value of power at the

time of delivery. Staff therefore recommends that the Daily Shape Adjustment be approved as proposed, and that it be a requirement for all future qualifying cogeneration and small power production facilities (QFs) with Avista contracts. Staff does not recommend that a Daily Shape Adjustment be required for Idaho Power and PacifiCorp at this time.

To clarify how the Daily Shape Adjustment would be applied, Staff recommends that the following language be added to the definition of Daily Shape Adjustment:

The “Daily Shape Adjustment” increases the on-peak rate and decreases the off-peak rate such that the difference between the on-peak and off-peak rate is \$5/MWh and the average rate weighted by the number of on-peak and off-peak hours is equal to the unadjusted avoided cost.

Equating the term “fueled” with “natural gas-fueled”

In its Application, Avista is also proposing to further refine the definition of the term “fueled” as it relates to avoided cost rates, to mean “natural gas-fueled.” By way of background, in 1995 the Commission approved two avoided cost rate methodologies for QFs. One methodology was adopted for “non-fueled projects, e.g., wind, solar, hydro,” and a separate methodology was approved for pricing power generated by “fueled projects.” Order No. 25884. Order No. 25884 did not provide examples of fueled projects but did state that it was the Commission’s intent to encourage the development of non-fossil fuel generation. Both methodologies assume the costs Idaho Power would avoid and the costs associated with a combined cycle combustion turbine (CCCT). The methodologies, although structured differently, are presumed to be equivalent, each representing the purchasing utility’s avoided costs, i.e., the “incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source.” 18 C.F.R. § 292.101(b)(6).

In Case No. IPC-E-01-37, Idaho Power sought clarification as to whether non-fossil fuel-fired generating facilities utilizing waste products as fuel will also qualify for non-fueled rates. In that case, Staff contended that the fueled/non-fueled designation was never intended to be descriptive of the types of projects eligible for each type of rate because the rates were designed to be equivalent. The designation, Staff believed, was only intended to refer to the manner in which each type of rate was computed. Staff and all other commenting parties recommend that QF developers be permitted to choose either fueled or non-fueled rates. The Commission disagreed, however, stating

The Commission has reviewed its prior Order No. 25884 issued in Case No. IPC-E-93-28. It seems clear to us that the Commission intended and meant something more than a calculation methodology when it used the terms

“fueled” and “non-fueled.” By way of clarification, we find that the Commission’s intent in that Order was to use “non-fueled” to mean non-fossil fueled projects and “fueled” to mean fossil fueled projects. Accordingly, we find that projects fueled by animal or wood waste are non-fueled projects that are eligible for non-fueled rates. Reference Order No. 28945, Case No. IPC-E-01-37

One reason for further restricting the definition of “fueled” is to focus the application of the natural gas-based adjustable component of avoided cost rates onto only projects that use natural gas as a fuel. Avista has recently been negotiating with a coal-fueled Montana cogeneration project for a PURPA contract (See Case No. AVU-E-05-7). Although the project primarily uses coal as a fuel, according to the Application in Case No. AVU-E-05-7, it meets the requirements of a QF and is therefore eligible to receive avoided cost rates.

The argument in favor of restricting the term “fueled” to mean only “natural gas fueled” is that only natural gas fired projects have fuel costs that track natural gas prices. Coal projects, although they are fossil fueled, have relatively stable fuel costs that are not closely tied to natural gas prices. The argument against narrowing the definition of “fueled” is that one of the Commission’s stated intentions in adopting fueled and non-fueled rates was to encourage the development of non-fossil fueled projects.

Staff believes that how the term “fueled” is precisely defined is a policy question that should rest with the Commission. There is good rationale for either maintaining the current definition or for narrowing it. Staff believes the implications of either choice in direction for the definition will be minimal because extremely few fossil-fueled projects are likely to use anything other than natural gas.

Schedule 70 - Interconnection Standards

One area of revision adds “Interconnection Standards” to the Company’s “rules and Regulations” tariff sheet 70-r through 70-x, describing general conditions, requirements and technical specifications for the safe and reliable operation of interconnected customer-owned generation facilities. This tariff language will provide standard guidelines for interconnection as more customers opt for or consider the addition of self-owned generation. Included in the Company’s proposed revisions is information on general conditions such as applications and agreements, unauthorized connections, dedicated distribution transformer, metering, labeling, insurance and liability, future modification or expansion, customer-owned equipment protection and interconnection costs. Also included are technical specifications and interconnection requirements. The Company believes that

these interconnection standards are “industry standards” and desires to have these included in its tariffs as customers express more interest in self-owned generation.

Avista’s proposed interconnection standards are very similar to standards that Idaho Power has included in its Schedule 72 for many years. Those standards have proven adequate and have not led to customer complaints or confusion. Consequently, Staff believes that the proposed interconnection standards are acceptable and recommends that they be approved.

Schedule 62

The Company has made several additions to the “Definitions” section to support tariff Schedule 62. These additions include the definitions for the following: Market Energy Rate, Daily Shape Adjustment, Facility, In-Service Date, Interconnection Service Agreement, Network Distribution System, Point of Common Coupling, Qualifying Facility, and Seasonal Factors. In addition, several administrative changes have been made to reflect the change in applicability of Schedule 62 to no more than 10 average megawatts and to clarify and/or delete verbiage under “Power Rates” to clarify the “Non-Firm Energy Rate” and the applicability of the Seasonal and Daily Shape adjustments. Staff would characterize these changes as “housekeeping” changes as either necessary for clarification purposes or to insure that the tariff conforms to prior Commission orders.

Schedule 63 – Net Metering

The Company has removed the “Net Metering Option” from Schedule 62 and adds this to a new Schedule 63 to be consistent with changes made to the Company’s Washington tariff. Staff has no objection to this change.

STAFF RECOMMENDATION

Staff recommends approval of the tariffs as filed, but with one addition. Staff recommends that the following language be added to the definition of Daily Shape Adjustment:

The “Daily Shape Adjustment” increases the on-peak rate and decreases the off-peak rate such that the difference between the on-peak and off-peak rate is \$5/MWh and the average rate weighted by the number of on-peak and off-peak hours is equal to the unadjusted avoided cost.

Respectfully submitted this 26th day of July 2006.



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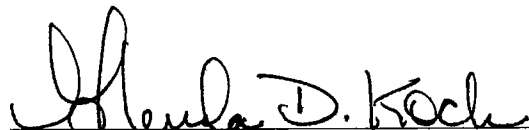
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26TH DAY OF JULY 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-06-4, BY E-MAILING A COPY THEREOF AND BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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