

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: CECELIA A. GASSNER

DATE: JULY 31, 2006

**SUBJECT: AVISTA CORPORATION'S "REVISED" APPLICATION TO
INCORPORATE REVISIONS TO TARIFF SCHEDULES 62 AND 70 AND
THE ADDITION OF A NEW TARIFF SCHEDULE 63; CASE NO. AVU-E-06-4**

On June 19, 2006, Avista Corporation ("Avista" or "Company") filed a revised Application with the Commission seeking an order allowing the Company to incorporate certain revisions into its tariff Schedules 62 and 70 and to add a new Schedule 63. This Commission has the jurisdiction over such request pursuant to *Idaho Code* §§ 61-307, 61-622 and 61-623. On July 7, 2006, the Commission issued a Notice of Application and Modified Procedure requesting comments regarding the Company's filing. Order No. 30093. The only comments received were submitted by the Commission Staff.

THE APPLICATION

In its Application, Avista requested approval of certain modifications to its tariff on file with the Commission. 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. The newly created Schedule 63 includes the net metering provisions previously contained in Schedule 62. The updated definitions include definitions for a Market Energy Rate and a Daily Shape Adjustment. The tariff changes also include an administrative change to reflect the modification in applicability in Schedule 62 to qualifying facilities with a generation capacity no more than 10 aMW, and to clarify or delete certain verbiage as appropriate. The changes to Schedule 70 comprise including interconnection standards describing general conditions, requirements and

technical specifications for the safe and reliable operation of interconnected customer-owned generation facilities.

STAFF COMMENTS

Daily Shape Adjustment

Staff noted that this proposed change is likely the most significant of all set forth in the Application. 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.

The effect of the proposed change would be 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.

The Daily Shape Adjustment would be in addition to the seasonalization factor currently employed by Avista that recognizes that power delivered to the utility is more or less valuable during certain times of the year than others. 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.

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.

Schedule 70 – Interconnection Standards

One of Avista's proposed changes 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 aMW 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 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.

COMMISSION DECISION

Does the Commission desire to approve the Application? If so, does the Commission desire to order that the language suggested above by Staff be added to the definition of Daily Shape Adjustment?



Cecelia A. Gassner