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UTILITIES COMMISSION

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*Attorney for Renewable Northwest Project
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
AVISTA CORPORATION FOR AN ORDER)
REVISING AVISTA CORPORATION'S)
OBLIGATIONS TO ENTER INTO)
CONTRACTS TO PURCHASE ENERGY)
GENERATED BY WIND-POWERED SMALL)
POWER GENERATION FACILITIES)
_____)

CASE NO. AVU-E-07-02

(Reference related cases nos.
PAC-E-07-07 and IPC-E-07-
03)

MOTION FOR APPROVAL OF SETTLEMENT STIPULATION

COMES NOW, Renewable Northwest Project and Northwest Energy Coalition ("Renewable Coalition") and pursuant to RP 56 and 272 moves the Commission for an order approving the enclosed Settlement Stipulation dated October 2, 2007 ("Stipulation") which is identified as Attachment 1. Renewable Coalition has conferred extensively with Avista, and Avista has reviewed this Motion in full. The undersigned counsel represents to the Commission that Avista supports this Motion. Avista and Renewable Coalition are hereinafter referred to as "Party" or collectively as "Parties." In support of this Motion, Renewable Coalition respectfully state as follows:

Introduction and Background

1. On June 17, 2005, in Case No. IPC-E-05-22, Avista filed a petition with the Commission requesting a temporary suspension from the Company's obligation under Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 ("PURPA") and various Commission orders, to enter into new contracts to purchase energy generated by wind powered Qualifying Facilities ("QFs"). Avista and PacifiCorp intervened in IPC-E-05-22 and requested any suspension of obligations under PURPA apply to each of the three major regulated utilities in Idaho. Following a public hearing and oral argument on August 4, 2005, the Commission entered Interlocutory Order No. 29839. The Interlocutory Order did not approve a temporary suspension but, instead, reduced the published rate eligibility cap for intermittent QF wind projects from 10 average MW/month to 100 kW and required individual contract negotiations for wind QFs larger than 100 kW. Order No. 29839 also established grandfathering criteria for QF wind projects that were in various stages of negotiation with Avista at the time Order No. 29839 was issued.

2. On August 23, 2005, in Order No. 29872, the Commission designated Interlocutory Order No. 29839 as final Order No. 29851 to allow parties to seek reconsideration and appeal of the Interlocutory Order. Subsequently, Order No. 29872 denied the petitions and cross-petitions for reconsideration of final Order No. 29851 filed by Windland Incorporated, Avista and the Commission Staff and established the right of aggrieved parties to appeal all final and interlocutory orders previously issued in Case No. IPC-E-05-22 to the Idaho Supreme Court. No appeals were filed.

3. In Interlocutory Order No. 29839 (Final Order No. 29851), the Commission found that wind generation presents operational integration costs to a utility different from other PURPA qualified resources. (Order No. 29839 p. 8). The Commission also found that the unique supply characteristics of wind generation and the related integration costs provide a basis for adjustment of the published avoided cost rates, a calculated figure that may be different for each utility. (Order No. 29839 p. 8).

4. On April 2, 2007, Avista filed a Petition to initiate the above-captioned proceeding. In its Petition, the Company presented the final Wind Integration Study and requested that the Commission issue its order establishing the following:

(a) Raising the cap on entitlement to published avoided cost rates for intermittent wind powered from the current level of 100 kW to 10,000 average kW per month ("10 average MWs/mo" or "10 aMW"); and

(b) Reducing the published avoided cost rates applicable to intermittent wind powered QFs to compensate for the increase in system costs due to wind variability. The Company proposed new published avoided cost rates for wind QFs in its Petition; and

(c) Authorizing Avista to purchase state-of-the-art wind forecasting services that will provide Avista with forecasts of wind conditions in those geographic areas in which wind generation resources are located. The Petition requested that QFs reimburse the Company for their share of the on-going cost of the wind forecasting service; and

(d) Authorizing the Company to include a "mechanical availability guarantee" in all contracts with new intermittent wind powered QF resources. The mechanical

availability guarantee would require wind powered QFs to demonstrate monthly that, except for scheduled maintenance and events of *force majeure*, the QF wind project was physically capable and available to generate at full output during 85% of the hours in the month.

(e) Finally, the Petition requested that if the Commission ordered the changes to the published rates, authorized the acquisition and funding of the wind forecasting services and authorized the inclusion of mechanical availability guarantees in future contracts for purchases of energy from intermittent wind powered QFs, Avista proposed that the Commission remove the requirement that the 90%/110% performance band be included in new contracts for energy purchases from intermittent wind powered QFs.

5. On June 20, 2007, a public workshop was held in this docket, although the discussion on that day primarily focused on Idaho Power Company's wind integration study. Interested parties (including the Renewable Coalition) continued to have informal discussions with Avista on its study.

6. Subsequently, on July 31, and August 10, 2007, Commission Staff sponsored joint settlement workshops in Case Nos. IPC-E-07-03 (Idaho Power), PAC-E-07-07 (PacifiCorp) and AVE-E-07-02 (Avista) to explore whether parties of record could agree to a common generic wind integration adjustment to published rates.

7. Participants in the joint settlement workshops were unable to reach a compromise generic agreement. However, as a direct result of those joint settlement discussions, additional informal discussions regarding settlement have continued.

8. The result of those informal settlement discussions is a Settlement Stipulation which is presented with this Petition.

Settlement Provisions

9. The Stipulation, Attachment 1, has several features which are explained in more detail as follows:

10. **Integration Charge.** Avista's study concluded that it would incur integration costs of 12% of the published avoided cost rates. However, there is general consensus among those that study the issue that wind integration cost increases with the amount of wind resources that are interconnected with the Company's system. To address that effect, in the Stipulation the Parties agreed to three tiers of wind integration charges based on increasing levels of wind development. The Parties also agreed to cap the wind integration charge at \$6.50 per MWh.

	<u>Amount of wind online</u>	<u>Integration charge (cap)</u>
Tier 1	0 to 199 MW	7% (\$6.50 per MWh)
Tier 2	200 to 299 MW	8% (\$6.50 per MWh)
Tier 3	300 MW and above	9% (\$6.50 per MWh)

The integration charge for each Wind QF project will be calculated at the time a Wind QF project enters a Firm Energy Sales Agreement ("FESA") between the Company and the Wind QF, based upon the amount of wind online on the expected delivery date in FESA. The integration charge will be calculated as a percentage (7%, 8% or 9%) of the current 20-year, levelized, avoided cost rate, subject to a cap of \$6.50/MWh. The integration charge as calculated on the Operation Date will remain fixed throughout the term of the contract and will be applied as a decrement to the applicable published rate

11. As noted in the Stipulation, the term "amount of wind online" means the cumulative amount of installed megawatts of wind generation capable of delivering energy in real time to Avista's system which are subject to any power purchase

agreement (or are owned by Avista) on the expected delivery date indicated in the Firm Energy Sales Agreement ("FESA") between the Company and the Wind QF.

12. The term "applicable published rate" means the applicable avoided cost rate approved by the Idaho PUC for purchases of power from QFs producing less than 10 aMW, for the relevant contract year and time period of energy generation.

13. **Assumptions and Reasonableness.**

The Parties are cognizant that all of the above-referenced integration charges, including the \$6.50 cap, are less than the 12% integration estimate presented in the Wind Integration Study. The Parties agree that the basic methodology Avista used to prepare the Wind Integration Study is sound. However, as is always the case with computer modeling, the devil is in the assumptions. The science of wind integration cost modeling is in its infancy. While wind integration cost modeling is a valid way to estimate wind integration costs, the Parties acknowledge that a reasonable period of experience is required in which utilities will have an opportunity to operate their systems with statistically significant amounts of wind generation on the system before the output of the models can be fully validated.

It is the Parties' position that the integration charges set out in the Stipulation are reasonable at the current time. As experience is gained, the integration charge could go up or down. Avista has advised that it believes both the 12% determined by the Study and the amounts set out in the Stipulation are within reasonable ranges of estimates of the Company's costs of integrating wind resources. Renewable Coalition has filed testimony in support of the Stipulation in which it explains why it believes the 12% calculate presented in Avista's study may be too high. Time will tell whether or not

the rates in the Settlement should be increased or decreased. If the best available scientific data and the Company's experience demonstrates that the percentage integration charge and the \$6.50 cap on the integration charge should be increased or decreased, Renewable Coalition fully anticipates the Company will include that information in its integrated resource planning process and present those results to the Commission.

Finally, the Parties believe that the integration charge contained in the Stipulation will provide long-term stability for QF development and will provide flexibility to protect customers from published rates that are too high.

14. **Elimination of the 90%/110% Performance Band Mechanical Availability Guarantee.** In the Stipulation the Parties have agreed that inclusion of the "90%/110%" performance band approved by the Commission in Order No. 29632 will be eliminated from the template Firm Energy Sales Agreement for future Wind QFs. The 90%/110% performance band will be replaced in future FESAs by the integration charge described in paragraph 10 above, a mechanical availability guarantee as described in Avista's Petition in this case, and a wind forecasting charge as described in paragraph 16 below.

15. **On-going Review of Wind Integration Costs.** In the Stipulation, the Parties have agreed that Avista will continue to review its Wind Integration Study and update its Study to include the results of available scientific data and actual operating experience. In the Stipulation, the Parties set out the general framework for that continued review. This framework is as follows:

(a) Avista will convene an informal wind integration cost working group which will meet at least two times during 2008 to discuss Avista's Wind Integration Study and new data related to wind integration costs.

(b) Avista will review its expected cost of wind integration in light of the best available scientific data and actual operating experience. Expected wind integration cost information will be included in the Company's integrated resource planning ("IRP") process in the same way that costs for other generating resources are included in the IRP.

16. **Wind Energy Production Forecasting.** During the workshops undertaken in this case, a lot of time and effort was devoted to trying to understand how the use of state-of-the-art wind energy production forecasting could be used to reduce the cost of integrating intermittent wind resources on utility systems. There seems to be general consensus that wind energy production forecasting will be useful in achieving that goal. To that end, in the Stipulation the Parties have agreed that Avista will have the option of contracting with a nationally recognized wind energy production forecasting vendor to produce a wind energy production cost for Avista's service area. The cost of this forecasting service will be shared equally between Avista and any Wind QF, and will be allocated to all Wind QFs holding FESAs with Avista and other wind generation on Avista's system on a uniform per-MW basis, with a monthly cap on the Wind QFs maximum liability for such costs set at 0.1% of the total energy payments Avista made to the Wind QF. Avista will consult with Wind QFs in setting up the protocols for the wind energy forecasting program. It is Avista's intent that the wind energy forecasting program be practical and cost effective.

Conclusion

Renewable Coalition request that the Commission process this Motion by modified procedure in accordance with RP 201 *et seq.*

For the reasons cited herein, Renewable Coalition respectfully submits that the Stipulation is in the public interest and hereby jointly request that, after appropriate review, the Commission enter its Order (1) approving the Stipulation; and (2) authorizing Avista to enter into new contracts with existing and future wind QFs utilizing the charges, terms and conditions contained in the Stipulation. Avista supports this Motion.

Respectfully submitted this 2nd day of October 2007.

RENEWABLE NORTHWEST PROJECT
AND NW ENERGY COALITION

A handwritten signature in black ink, appearing to read 'W. Eddie', written over a horizontal line.

WILLIAM M. EDDIE

CERTIFICATE OF SERVICE

I hereby certify that on the 3rd day of October 2007, I caused to be served, via the method(s) indicated below, true and correct copies of the foregoing document as well as the Direct Testimony of Ken Dragoon, upon:

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William M. Eddie

AVU-E-07-02

ATTACHMENT 1 TO:

**MOTION FOR APPROVAL OF SETTLEMENT
STIPULATION**

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)	
AVISTA CORPORATION FOR AN ORDER)	
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OBLIGATIONS TO ENTER INTO)	
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GENERATED BY WIND-POWERED SMALL)	
POWER GENERATION FACILITIES)	(Reference related cases nos.
)	PAC-E-07-07 and IPC-E-07-
)	03)
)	

STIPULATION

1. This Settlement Stipulation ("Stipulation") is entered into by and among Avista Corporation ("Avista" or "the Company"), Renewable Northwest Project and NW Energy Coalition ("Northwest Coalition), the Staff of the Idaho Public Utilities Commission ("Staff"), and the other signatories to this Stipulation, all of which are individually referred to as "Party" or collectively referred to as, the "Parties."

I. INTRODUCTION

2. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of the issues raised in this proceeding and that this Stipulation is in the public interest. The Parties believe that the Stipulation and its acceptance by the Idaho Public Utilities Commission ("IPUC" or "Commission"), represents a reasonable resolution of the issues identified in this matter. The Parties, therefore, respectfully request that the Commission, in accordance with Rule of Procedure ("RP") 274, approve the Stipulation and all of its terms and conditions without material change or condition.

II. BACKGROUND

3. In Case No. IPC-E-05-22, the Commission investigated the appropriate pricing of intermittent generation purchased from Qualified Facilities ("QFs") pursuant to Section 201 and 210 of the Public Utility Regulatory Policies Act of 1978 ("PURPA") and whether any related utility integration costs were fully reflected in the published avoided cost rates. Pending this determination, the Commission issued Order No. 29839 in August 2005 reducing the published rate eligibility cap for intermittent QFs using wind as the motive force ("Wind QFs") from 10 average MW ("aMW") per month to 100 kW and required individual contract negotiations for Wind QFs larger than 100 kW.

4. In March 2007 Avista completed a study to quantify the additional costs it would incur directly related to purchasing a significant amount of wind generation ("Wind Integration Study" or "Study"). In April 2007, Avista filed the Study with the Commission, together with the Petition that initiated this docket proposing an integration

adjustment set at 12% of the published avoided cost rates. In its Petition, Avista requested that the Commission issue an order:

A. Raising the cap on entitlement to published avoided cost rates for intermittent Wind QFs from the current level of 100 kW to 10,000 average kW per month ("10 aMWs/month");

B. Reducing the published avoided cost rates applicable to intermittent Wind QFs to compensate for the increase in system costs due to wind variability

C. Authorizing Avista to purchase state-of-the-art wind energy production forecasting services that will provide Avista with forecasts of wind conditions in those geographic areas in which Wind QFs are located. Avista also requested that the order provide that Wind QFs reimburse the Company for its share of the on-going cost of the wind forecasting service;

D. Authorizing the Company to include a "mechanical availability guarantee" ("MAG") in all contracts with new intermittent Wind QFs. The MAG would require intermittent Wind QFs to demonstrate monthly that, except for scheduled maintenance and events of force majeure, the Wind QF project was physically capable and available to generate at full output during 85% of the hours in the month; and

E. If the Commission orders the requested changes to the published rates, authorizes the acquisition and funding of the wind forecasting services, and authorizes the inclusion of a MAG in future contracts for purchases of energy from intermittent Wind QFs, Avista proposed that the Commission remove the requirement that the 90%/110% performance band be included in new contracts for energy purchases from intermittent Wind QFs.

5. Interested parties participated in multiple workshops and settlement discussions in the above-captioned proceeding (AVU-E-07-02) and the related proceedings in docket numbers IPC-E-05-22 and IPC-E-07-03.

6. As a result of those workshops and other settlement discussions, as a compromise to fully resolve the issues as between the Parties raised in the above-captioned proceeding, and for other consideration as set forth below, the Parties agree to the following terms:

III. Terms of the Stipulation.

7. Avista's published avoided cost rates for Wind QFs will be adjusted to recognize an assumed cost of integrating the energy generated by Wind QFs as a part of the Company's generating resource portfolio. The rate adjustment will be applied in three tiers, increasing as the amount of wind integrated onto Avista's system grows. The integration charge will be calculated as a percentage (7%, 8% or 9%) of the current 20-year, levelized, avoided cost rate, subject to a cap of \$6.50/MWh. The integration charge, as calculated on the Operation Date for each Wind QF, will remain fixed throughout the term of the contract and will be applied as a decrement to the applicable published rate according to the table below:

	<u>Amount of Wind Online</u>	<u>Integration Charge¹</u>	<u>Cap</u>
Tier 1	0 to 199 MW	7%	\$6.50
Tier 2	200 to 299 MW	8%	\$6.50
Tier 3	300 MW and above	9%	\$6.50

¹ The integration charge is expressed as a percentage of the published avoided cost rate.

8. In this Stipulation, the term “amount of wind online” means the cumulative amount of installed megawatts of wind generation capable of delivering energy in real time to Avista’s system which are subject to any power purchase agreement (or are owned by Avista) on the expected delivery date indicated in the Firm Energy Sales Agreement (“FESA”) between the Company and the Wind QF.

9. The terms “applicable published rate” and “avoided cost rate” mean the applicable avoided cost rate approved by the IPUC and updated periodically for purchases of power from QFs producing less than 10 aMW/month, for the relevant contract year and time period of energy generation.

10. The “90%/110%” performance band approved by the Commission in Order No. 29632 will be eliminated from the Firm Energy Sales Agreement for future Wind QFs. The 90%/110% performance band will be replaced in future FESAs by the integration charge described in paragraph 7 above, a MAG as described in Avista’s Petition in this case, and a wind forecasting charge (if Avista chooses to retain a forecasting service) as described in paragraph 13 below.

11. Avista will convene an informal wind integration cost working group, which will meet at least two times prior to the publishing of the Company’s 2009 Integrated Resource Plan (“IRP”) to discuss Avista’s Wind Integration Study and new data related to wind integration costs.

12. Avista will review its expected cost of wind integration in light of the best available scientific data and actual operating experience. Expected wind integration cost information will be included in the Company’s IRP process in the same way that costs for other generating resources are included in the IRP.

13. If Avista, in its sole discretion, determines that forecasting is necessary or desirable, Avista will contract with a qualified wind energy production forecasting vendor. The cost of this forecasting service will be shared equally between Avista and any Wind QF, and will be allocated to all Wind QFs holding FESAs with Avista and other wind generation on Avista's system on a uniform per-MW basis, with a monthly cap on the Wind QFs maximum liability for such costs set at 0.1% of the total energy payments Avista made to the Wind QF. Avista will consult with Wind QFs in setting up the protocols for the wind energy forecasting program. It is Avista's intent that the wind energy forecasting program be practical and cost effective.

14. **Best Efforts for Approval:** The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to RP 274. The Parties shall support this Stipulation before the Commission and no Party shall appeal a Commission Order approving this Stipulation or an issue resolved by this Stipulation. If this Stipulation is challenged by any person not a Party to this Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

15. **Right to Withdraw:** If the Commission rejects any part or all of this Stipulation, or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within seven days of the date of such action by the Commission, to withdraw from this Stipulation, and each Party shall be entitled to seek reconsideration of the Commission's Order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate. In such case, the Parties will immediately request that a prehearing conference be convened for purposes of establishing a procedural schedule for the completion of the case. The Parties agree to cooperate in developing a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing briefs.

16. **Public Interest:** The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

17. **Commission Approval:** The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions.

18. **Counterparts:** This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

19. **Signature Clause:** The signatories hereto represent that they have been authorized to enter into this Stipulation on behalf of the Party for whom they sign.

Respectfully submitted this 2nd day of October 2007.

AVISTA CORPORATION

KELLY NORWOOD
Vice President, State and Federal Regulation

RENEWABLE NORTHWEST PROJECT
AND NW ENERGY COALITION

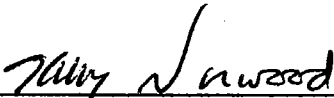


WILLIAM M. EDDIE

19. **Signature Clause:** The signatories hereto represent that they have been authorized to enter into this Stipulation on behalf of the Party for whom they sign.

Respectfully submitted this 2nd day of October 2007.

AVISTA CORPORATION



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Vice President, State and Federal Regulation

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