

## DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER RAPER  
COMMISSIONER ANDERSON  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE**

**FROM: YAO YIN**

**DATE: DECEMBER 26, 2019**

**RE: UPDATE TO AVISTA'S PURPA AVOIDED COST RATES TO  
INCORPORATE NEW COST OF DEBT; CASE NO. AVU-E-19-14**

Pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA) and the implementing regulations of the Federal Energy Regulatory Commission (FERC), the Commission approved a Surrogate Avoided Resource (SAR) methodology for calculation of the published avoided cost rates paid to PURPA qualifying cogeneration and small power production facilities (QFs) by Idaho Power Company, Avista Corporation, and PacifiCorp.

### **STAFF'S UPDATES TO PUBLISHED AVOIDED COST RATES**

On November 29, 2019, the Commission issued Order No. 34499, the final Order in Avista's recent general rate case (Case No. AVU-E-19-04). The conclusion of the general rate case has triggered recalculation of published avoided cost rates for Avista to reflect the change of cost of debt from 5.72% to 5.20%. As a result, the weighted cost of capital, which depends on debt and equity, has changed from 7.61% to 7.35%. Past practice has been to incorporate new changes following a general rate case.

Weighted cost of capital affects avoided cost rates in the SAR model in two ways. First, it represents the avoided cost to a utility to finance construction of new facilities. Second, it is used as a discount rate in the process of levelizing avoided cost rates. A change in weighted cost of capital from each of these effects impacts levelized avoided cost rates in opposite directions. For example, when weighted cost of capital is decreased, as is seen in this case, the cost to finance new facilities decreases, lowering avoided cost rates. However, a lower weighted cost of capital also causes higher avoided cost rates when determining levelized rates, because cash

flows in the future are discounted less when brought back to present value. The final change in levelized avoided cost rates depends on the net effect.

Staff has recalculated published avoided cost rates for Avista using the new cost of debt as shown in the attachment. For levelized rates, new avoided cost rates can be higher or lower than the old avoided cost rates, depending on the contract length. However, non-levelized rates are only affected by the decrease in cost to finance new facilities. Because there is an overall decrease in the weighted cost of capital, the proposed non-levelized avoided cost rates are consistently lower than the old non-levelized rates.

Staff sent a letter via email to Avista on December 26, 2019. Attached to the letter was an updated version of the published avoided cost model as well as the resulting new avoided cost rates. Staff asked Avista to review the model and file comments with the Commission by the comment deadline regarding whether the inputs were updated and included in the model correctly.

#### **STAFF RECOMMENDATION**

Staff recommends the Commission process the case by modified procedure and set a comment deadline of January 20, 2020, and a reply comment deadline of January 27, 2020.

#### **COMMISSION DECISION**

Does the Commission wish to issue a Notice of Application and Notice of Modified Procedure that sets a comment deadline of January 20, 2020, and a reply comment deadline of January 27, 2020 in this case?



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Yao Yin

Udmemos/Avista's Weighted Cost of Capital dec memo

| AVISTA<br>AVOIDED COST RATES FOR WIND PROJECTS<br>XXXX, 2020<br>\$/MWh<br>New Contracts and Replacement Contracts without Full Capacity Payments |              |       |       |       |       |       |               |                     |
|--|--------------|-------|-------|-------|-------|-------|---------------|---------------------|
| Eligibility for these rates is limited to projects 100 kW or smaller.  |              |       |       |       |       |       |               |                     |
| LEVELIZED  |              |       |       |       |       |       | NON-LEVELIZED |                     |
| CONTRACT LENGTH (YEARS)  | ON-LINE YEAR |       |       |       |       |       | CONTRACT YEAR | NON-LEVELIZED RATES |
|  | 2020         | 2021  | 2022  | 2023  | 2024  | 2025  |               |                     |
| 1  | 28.78        | 29.07 | 30.48 | 32.84 | 35.76 | 38.62 | 2020          | 28.78               |
| 2  | 28.92        | 29.75 | 31.62 | 34.25 | 37.14 | 40.98 | 2021          | 29.07               |
| 3  | 29.40        | 30.71 | 32.90 | 35.61 | 39.12 | 42.08 | 2022          | 30.48               |
| 4  | 30.17        | 31.84 | 34.19 | 37.38 | 40.33 | 43.06 | 2023          | 32.84               |
| 5  | 31.14        | 33.01 | 35.80 | 38.61 | 41.39 | 43.81 | 2024          | 35.76               |
| 6  | 32.18        | 34.47 | 37.00 | 39.70 | 42.22 | 44.51 | 2025          | 38.62               |
| 7  | 33.47        | 35.62 | 38.09 | 40.58 | 42.98 | 45.12 | 2026          | 43.52               |
| 8  | 34.53        | 36.66 | 38.98 | 41.37 | 43.64 | 45.83 | 2027          | 44.51               |
| 9  | 35.52        | 37.55 | 39.79 | 42.08 | 44.37 | 46.52 | 2028          | 46.48               |
| 10   | 36.36        | 38.35 | 40.51 | 42.81 | 45.07 | 47.20 | 2029          | 47.41               |
| 11   | 37.14        | 39.07 | 41.26 | 43.53 | 45.76 | 47.86 | 2030          | 48.82               |
| 12   | 37.84        | 39.80 | 41.97 | 44.21 | 46.42 | 48.51 | 2031          | 49.91               |
| 13   | 38.55        | 40.50 | 42.65 | 44.87 | 47.06 | 49.13 | 2032          | 52.43               |
| 14   | 39.23        | 41.18 | 43.31 | 45.52 | 47.68 | 49.72 | 2033          | 54.27               |
| 15   | 39.88        | 41.82 | 43.95 | 46.13 | 48.26 | 50.29 | 2034          | 56.07               |
| 16   | 40.50        | 42.45 | 44.55 | 46.71 | 48.83 | 50.87 | 2035          | 57.79               |
| 17   | 41.11        | 43.04 | 45.12 | 47.27 | 49.40 | 51.42 | 2036          | 59.79               |
| 18   | 41.68        | 43.60 | 45.67 | 47.83 | 49.94 | 51.95 | 2037          | 61.23               |
| 19   | 42.23        | 44.14 | 46.22 | 48.35 | 50.45 | 52.48 | 2038          | 62.80               |
| 20   | 42.75        | 44.67 | 46.74 | 48.86 | 50.97 | 53.02 | 2039          | 64.49               |
|  |              |       |       |       |       |       | 2040          | 66.95               |
|  |              |       |       |       |       |       | 2041          | 68.30               |
|  |              |       |       |       |       |       | 2042          | 69.88               |
|  |              |       |       |       |       |       | 2043          | 72.52               |
|  |              |       |       |       |       |       | 2044          | 75.66               |
|  |              |       |       |       |       |       | 2045          | 78.53               |

Note: These rates will be further adjusted with the applicable integration charge.

Note: The rates shown in this table have been computed using the U.S. Energy Information Administration (EIA)'s Annual Energy Outlook 2019, released January 2019. See Annual Energy Outlook 2019, Table 3.8 Energy Prices by Sector-Mountain at [https://www.eia.gov/outlooks/aeo/tables\\_ref.php](https://www.eia.gov/outlooks/aeo/tables_ref.php)

**AVISTA  
AVOIDED COST RATES FOR SOLAR PROJECTS  
XXXX, 2020  
\$/MWh**

**New Contracts and Replacement Contracts without Full Capacity Payments**

Eligibility for these rates is limited to projects 100 kW or smaller.

| LEVELIZED               |              |       |       |       |       |       | NON-LEVELIZED |                     |
|-------------------------|--------------|-------|-------|-------|-------|-------|---------------|---------------------|
| CONTRACT LENGTH (YEARS) | ON-LINE YEAR |       |       |       |       |       | CONTRACT YEAR | NON-LEVELIZED RATES |
|                         | 2020         | 2021  | 2022  | 2023  | 2024  | 2025  |               |                     |
| 1                       | 28.78        | 29.07 | 30.48 | 32.84 | 35.76 | 38.62 | 2020          | 28.78               |
| 2                       | 28.92        | 29.75 | 31.62 | 34.25 | 37.14 | 41.64 | 2021          | 29.07               |
| 3                       | 29.40        | 30.71 | 32.90 | 35.61 | 39.54 | 42.96 | 2022          | 30.48               |
| 4                       | 30.17        | 31.84 | 34.19 | 37.68 | 40.96 | 44.06 | 2023          | 32.84               |
| 5                       | 31.14        | 33.01 | 36.03 | 39.10 | 42.16 | 49.58 | 2024          | 35.76               |
| 6                       | 32.18        | 34.66 | 37.40 | 40.32 | 46.85 | 53.49 | 2025          | 38.62               |
| 7                       | 33.63        | 35.94 | 38.60 | 44.40 | 50.39 | 53.25 | 2026          | 44.88               |
| 8                       | 34.81        | 37.09 | 42.20 | 47.62 | 50.49 | 53.32 | 2027          | 45.90               |
| 9                       | 35.89        | 40.29 | 45.13 | 47.93 | 50.77 | 53.52 | 2028          | 47.89               |
| 10                      | 38.74        | 42.97 | 45.58 | 48.35 | 51.13 | 53.81 | 2029          | 76.01               |
| 11                      | 41.17        | 43.49 | 46.09 | 48.82 | 51.53 | 54.16 | 2030          | 77.84               |
| 12                      | 41.73        | 44.06 | 46.63 | 49.30 | 51.96 | 54.55 | 2031          | 51.38               |
| 13                      | 42.32        | 44.63 | 47.16 | 49.79 | 52.42 | 54.95 | 2032          | 53.92               |
| 14                      | 42.91        | 45.19 | 47.69 | 50.29 | 52.87 | 55.36 | 2033          | 55.79               |
| 15                      | 43.48        | 45.74 | 48.22 | 50.77 | 53.31 | 55.78 | 2034          | 57.61               |
| 16                      | 44.03        | 46.28 | 48.73 | 51.25 | 53.76 | 57.34 | 2035          | 59.35               |
| 17                      | 44.57        | 46.80 | 49.22 | 51.72 | 55.23 | 57.74 | 2036          | 61.37               |
| 18                      | 45.09        | 47.31 | 49.70 | 53.10 | 55.65 | 58.13 | 2037          | 62.84               |
| 19                      | 45.59        | 47.79 | 51.01 | 53.54 | 56.06 | 58.55 | 2038          | 64.43               |
| 20                      | 46.07        | 49.03 | 51.46 | 53.96 | 56.49 | 58.99 | 2039          | 66.14               |
|                         |              |       |       |       |       |       | 2040          | 100.55              |
|                         |              |       |       |       |       |       | 2041          | 70.00               |
|                         |              |       |       |       |       |       | 2042          | 71.61               |
|                         |              |       |       |       |       |       | 2043          | 74.27               |
|                         |              |       |       |       |       |       | 2044          | 77.44               |
|                         |              |       |       |       |       |       | 2045          | 80.33               |

Note: These rates will be further adjusted with the applicable integration charge.

Note: The rates shown in this table have been computed using the U.S. Energy Information Administration (EIA)'s Annual Energy Outlook 2019, released January 2019. See Annual Energy Outlook 2019, Table 3.8 Energy Prices by Sector-Mountain at [https://www.eia.gov/outlooks/aeo/tables\\_ref.php](https://www.eia.gov/outlooks/aeo/tables_ref.php)



| <b>AVISTA</b><br><b>AVOIDED COST RATES FOR NON-SEASONAL HYDRO PROJECTS</b><br><b>XXXX, 2020</b><br>\$/MWh<br><b>New Contracts and Replacement Contracts without Full Capacity Payments</b> |              |       |       |       |       |       |               |                     |
|--|--------------|-------|-------|-------|-------|-------|---------------|---------------------|
| <b>Eligibility for these rates is limited to projects smaller than 10 aMW.</b>   |              |       |       |       |       |       |               |                     |
| LEVELIZED  |              |       |       |       |       |       | NON-LEVELIZED |                     |
| CONTRACT LENGTH (YEARS)  | ON-LINE YEAR |       |       |       |       |       | CONTRACT YEAR | NON-LEVELIZED RATES |
|  | 2020         | 2021  | 2022  | 2023  | 2024  | 2025  |               |                     |
| 1  | 28.78        | 29.07 | 30.48 | 32.84 | 35.76 | 38.62 | 2020          | 28.78               |
| 2  | 28.92        | 29.75 | 31.62 | 34.25 | 37.14 | 44.69 | 2021          | 29.07               |
| 3  | 29.40        | 30.71 | 32.90 | 35.61 | 41.50 | 47.05 | 2022          | 30.48               |
| 4  | 30.17        | 31.84 | 34.19 | 39.10 | 43.92 | 48.69 | 2023          | 32.84               |
| 5  | 31.14        | 33.01 | 37.12 | 41.38 | 45.73 | 52.93 | 2024          | 35.76               |
| 6  | 32.18        | 35.53 | 39.23 | 43.18 | 49.54 | 55.99 | 2025          | 38.62               |
| 7  | 34.35        | 37.45 | 40.96 | 46.62 | 52.45 | 56.24 | 2026          | 51.19               |
| 8  | 36.08        | 39.08 | 44.06 | 49.35 | 53.00 | 56.68 | 2027          | 52.30               |
| 9  | 37.58        | 41.89 | 46.61 | 50.08 | 53.64 | 57.18 | 2028          | 54.39               |
| 10   | 40.12        | 44.25 | 47.43 | 50.84 | 54.29 | 57.72 | 2029          | 73.23               |
| 11   | 42.29        | 45.11 | 48.27 | 51.58 | 54.94 | 58.27 | 2030          | 75.02               |
| 12   | 43.16        | 45.97 | 49.06 | 52.30 | 55.58 | 58.84 | 2031          | 58.18               |
| 13   | 44.02        | 46.79 | 49.82 | 52.99 | 56.21 | 59.39 | 2032          | 60.81               |
| 14   | 44.83        | 47.56 | 50.54 | 53.67 | 56.82 | 59.93 | 2033          | 62.78               |
| 15   | 45.60        | 48.30 | 51.25 | 54.31 | 57.41 | 60.47 | 2034          | 64.71               |
| 16   | 46.33        | 49.01 | 51.91 | 54.93 | 57.98 | 61.75 | 2035          | 66.55               |
| 17   | 47.03        | 49.68 | 52.54 | 55.52 | 59.21 | 62.26 | 2036          | 68.67               |
| 18   | 47.69        | 50.31 | 53.14 | 56.71 | 59.74 | 62.75 | 2037          | 70.25               |
| 19   | 48.32        | 50.92 | 54.28 | 57.25 | 60.25 | 63.26 | 2038          | 71.95               |
| 20   | 48.92        | 52.00 | 54.84 | 57.78 | 60.77 | 63.78 | 2039          | 73.78               |
|  |              |       |       |       |       |       | 2040          | 97.28               |
|  |              |       |       |       |       |       | 2041          | 77.87               |
|  |              |       |       |       |       |       | 2042          | 79.59               |
|  |              |       |       |       |       |       | 2043          | 82.37               |
|  |              |       |       |       |       |       | 2044          | 85.66               |
|  |              |       |       |       |       |       | 2045          | 88.67               |

Note: These rates will be further adjusted with the applicable integration charge.

Note: The rates shown in this table have been computed using the U.S. Energy Information Administration (EIA)'s Annual Energy Outlook 2019, released January 2019. See Annual Energy Outlook 2019, Table 3.8 Energy Prices by Sector-Mountain at [https://www.eia.gov/outlooks/aeo/tables\\_ref.php](https://www.eia.gov/outlooks/aeo/tables_ref.php)

| AVISTA<br>AVOIDED COST RATES FOR SEASONAL HYDRO PROJECTS<br>XXXX, 2020<br>\$/MWh<br>New Contracts and Replacement Contracts without Full Capacity Payments |              |       |       |       |       |       |               |                     |
|--|--------------|-------|-------|-------|-------|-------|---------------|---------------------|
| Eligibility for these rates is limited to projects smaller than 10 aMW.  |              |       |       |       |       |       |               |                     |
| LEVELIZED  |              |       |       |       |       |       | NON-LEVELIZED |                     |
| CONTRACT LENGTH (YEARS)  | ON-LINE YEAR |       |       |       |       |       | CONTRACT YEAR | NON-LEVELIZED RATES |
|  | 2020         | 2021  | 2022  | 2023  | 2024  | 2025  |               |                     |
| 1  | 28.78        | 29.07 | 30.48 | 32.84 | 35.76 | 38.62 | 2020          | 28.78               |
| 2  | 28.92        | 29.75 | 31.62 | 34.25 | 37.14 | 39.55 | 2021          | 29.07               |
| 3  | 29.40        | 30.71 | 32.90 | 35.61 | 38.20 | 40.15 | 2022          | 30.48               |
| 4  | 30.17        | 31.84 | 34.19 | 36.71 | 38.94 | 40.89 | 2023          | 32.84               |
| 5  | 31.14        | 33.01 | 35.28 | 37.54 | 39.71 | 49.83 | 2024          | 35.76               |
| 6  | 32.18        | 34.06 | 36.15 | 38.35 | 47.05 | 56.06 | 2025          | 38.62               |
| 7  | 33.13        | 34.91 | 36.98 | 44.57 | 52.51 | 54.99 | 2026          | 40.55               |
| 8  | 33.94        | 35.73 | 42.34 | 49.40 | 51.95 | 54.43 | 2027          | 41.50               |
| 9  | 34.72        | 40.41 | 46.65 | 49.18 | 51.72 | 54.15 | 2028          | 43.42               |
| 10   | 38.85        | 44.28 | 46.66 | 49.18 | 51.67 | 54.05 | 2029          | 92.69               |
| 11   | 42.32        | 44.43 | 46.81 | 49.29 | 51.74 | 54.07 | 2030          | 94.76               |
| 12   | 42.56        | 44.70 | 47.04 | 49.48 | 51.88 | 54.20 | 2031          | 46.72               |
| 13   | 42.89        | 45.00 | 47.32 | 49.72 | 52.10 | 54.37 | 2032          | 49.19               |
| 14   | 43.24        | 45.34 | 47.63 | 50.01 | 52.34 | 54.58 | 2033          | 50.99               |
| 15   | 43.60        | 45.69 | 47.96 | 50.30 | 52.61 | 54.82 | 2034          | 52.74               |
| 16   | 43.98        | 46.06 | 48.30 | 50.62 | 52.90 | 57.10 | 2035          | 54.41               |
| 17   | 44.37        | 46.43 | 48.65 | 50.94 | 55.01 | 57.33 | 2036          | 56.35               |
| 18   | 44.75        | 46.79 | 49.00 | 52.91 | 55.29 | 57.58 | 2037          | 57.75               |
| 19   | 45.12        | 47.15 | 50.83 | 53.21 | 55.57 | 57.87 | 2038          | 59.26               |
| 20   | 45.49        | 48.87 | 51.16 | 53.51 | 55.87 | 58.20 | 2039          | 60.90               |
|  |              |       |       |       |       |       | 2040          | 120.14              |
|  |              |       |       |       |       |       | 2041          | 64.61               |
|  |              |       |       |       |       |       | 2042          | 66.13               |
|  |              |       |       |       |       |       | 2043          | 68.72               |
|  |              |       |       |       |       |       | 2044          | 71.80               |
|  |              |       |       |       |       |       | 2045          | 74.61               |

Note: A "seasonal hydro project" is defined as a generation facility which produces at least 55% of its annual generation during the months of June, July, and August. Order 32802.

Note: These rates will be further adjusted with the applicable integration charge.

Note: The rates shown in this table have been computed using the U.S. Energy Information Administration (EIA)'s Annual Energy Outlook 2019, released January 2019. See Annual Energy Outlook 2019, Table 3.8 Energy Prices by Sector-Mountain at [https://www.eia.gov/outlooks/aeo/tables\\_ref.php](https://www.eia.gov/outlooks/aeo/tables_ref.php)

| AVISTA<br>AVOIDED COST RATES FOR OTHER PROJECTS<br>XXXX, 2020<br>\$/MWh<br>New Contracts and Replacement Contracts without Full Capacity Payments |              |       |       |       |       |       |               |                     |
|---|--------------|-------|-------|-------|-------|-------|---------------|---------------------|
| Eligibility for these rates is limited to projects smaller than 10 aMW.   |              |       |       |       |       |       |               |                     |
| LEVELIZED   |              |       |       |       |       |       | NON-LEVELIZED |                     |
| CONTRACT LENGTH (YEARS)   | ON-LINE YEAR |       |       |       |       |       | CONTRACT YEAR | NON-LEVELIZED RATES |
|   | 2020         | 2021  | 2022  | 2023  | 2024  | 2025  |               |                     |
| 1   | 28.78        | 29.07 | 30.48 | 32.84 | 35.76 | 38.62 | 2020          | 28.78               |
| 2   | 28.92        | 29.75 | 31.62 | 34.25 | 37.14 | 49.42 | 2021          | 29.07               |
| 3   | 29.40        | 30.71 | 32.90 | 35.61 | 44.54 | 53.40 | 2022          | 30.48               |
| 4   | 30.17        | 31.84 | 34.19 | 41.30 | 48.51 | 55.89 | 2023          | 32.84               |
| 5   | 31.14        | 33.01 | 38.82 | 44.92 | 51.27 | 57.58 | 2024          | 35.76               |
| 6   | 32.18        | 36.89 | 42.07 | 47.63 | 53.27 | 58.94 | 2025          | 38.62               |
| 7   | 35.47        | 39.79 | 44.63 | 49.70 | 54.88 | 60.06 | 2026          | 61.02               |
| 8   | 38.05        | 42.17 | 46.66 | 51.40 | 56.22 | 61.17 | 2027          | 62.27               |
| 9   | 40.23        | 44.11 | 48.36 | 52.83 | 57.48 | 62.19 | 2028          | 64.50               |
| 10  | 42.04        | 45.76 | 49.82 | 54.16 | 58.63 | 63.16 | 2029          | 65.70               |
| 11  | 43.62        | 47.19 | 51.17 | 55.37 | 59.70 | 64.07 | 2030          | 67.37               |
| 12  | 44.99        | 48.53 | 52.40 | 56.49 | 60.68 | 64.94 | 2031          | 68.74               |
| 13  | 46.28        | 49.75 | 53.53 | 57.52 | 61.62 | 65.76 | 2032          | 71.54               |
| 14  | 47.47        | 50.87 | 54.58 | 58.49 | 62.50 | 66.53 | 2033          | 73.66               |
| 15  | 48.56        | 51.91 | 55.57 | 59.40 | 63.32 | 67.27 | 2034          | 75.75               |
| 16  | 49.58        | 52.89 | 56.48 | 60.24 | 64.09 | 68.01 | 2035          | 77.76               |
| 17  | 50.54        | 53.80 | 57.33 | 61.04 | 64.86 | 68.71 | 2036          | 80.05               |
| 18  | 51.42        | 54.65 | 58.14 | 61.82 | 65.58 | 69.37 | 2037          | 81.79               |
| 19  | 52.26        | 55.45 | 58.92 | 62.55 | 66.26 | 70.03 | 2038          | 83.66               |
| 20  | 53.04        | 56.22 | 59.65 | 63.24 | 66.93 | 70.70 | 2039          | 85.66               |
|   |              |       |       |       |       |       | 2040          | 88.43               |
|   |              |       |       |       |       |       | 2041          | 90.10               |
|   |              |       |       |       |       |       | 2042          | 92.01               |
|   |              |       |       |       |       |       | 2043          | 94.97               |
|   |              |       |       |       |       |       | 2044          | 98.45               |
|   |              |       |       |       |       |       | 2045          | 101.65              |

Note: "Other projects" refers to projects other than wind, solar, non-seasonal hydro, and seasonal hydro projects. These "Other projects" may include (but are not limited to): cogeneration, biomass, biogas, landfill gas, or geothermal projects.

Note: The rates shown in this table have been computed using the U.S. Energy Information Administration (EIA)'s Annual Energy Outlook 2019, released January 2019. See Annual Energy Outlook 2019, Table 3.8 Energy Prices by Sector-Mountain at [https://www.eia.gov/outlooks/aeo/tables\\_ref.php](https://www.eia.gov/outlooks/aeo/tables_ref.php)