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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE FILING OF AVISTA )**  
**CORPORATION DBA AVISTA UTILITIES - )** **CASE NO. AVU-E-01-12**  
**WASHINGTON WATER POWER DIVISION )**  
**(IDAHO) OF ITS 2001 INTEGRATED )** **COMMENTS OF THE**  
**ELECTRIC RESOURCE PLAN (IRP). )** **COMMISSION STAFF**  
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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Filing and Notice of Comment Deadline issued on August 22, 2001 submits the following comments.

On April 27, 2001, Avista Corporation dba Avista Utilities—Washington Water Power Division-Idaho (Avista; Company) filed its 2001 Integrated Resource Plan (IRP) with the Idaho Public Utilities Commission (Commission). The Company’s filing is pursuant to a biennial requirement established in Commission Order No. 22299, Case No. U-1500-165. The IRP describes the Company’s loads and resources, provides an overview of technically available resource options including conservation and establishes a demonstrated need for resources in 2004.

## **STAFF ANALYSIS**

Avista's last complete IRP was filed with the Commission on August 25, 1997. In 1998, the Company requested a one-year extension of its 1999 IRP filing requirements to August 2000. The Commission granted this request in Order No. 27636. On July 12, 2000, the Company prepared an update to its 1997 IRP to include significant changes that had occurred in the three-year interim since the 1997 IRP was prepared. The updated IRP confirmed Avista's need for new resources, identified potential alternatives, and concluded that the Company should immediately seek to acquire additional generation. This updated IRP served as the basis for a Request-For-Proposals (RFP) that was issued on August 14, 2000.

Because the July 2000 update to the IRP was submitted approximately one year ago, the 2001 IRP can be viewed as yet another update, rather than the culmination of a full-blown IRP process. The 2001 IRP includes all of the usual elements of a full IRP, but the process did not include the usual public or Staff involvement and review. Staff was, however, extensively involved in the Company's recent RFP process. Nevertheless, the 2001 IRP is complete, fulfills the Commission requirements for electric IRPs, and returns Avista to its previous two-year preparation cycle.

Since the updated IRP was filed in 2000, there have been other changes to Avista's resource portfolio including the final results of the RFP process. These resource changes are discussed in the 2001 IRP and are summarized below.

### **Resource Portfolio Changes Since the 2000 IRP**

1. On February 12, 1999 Avista sold Meyers Falls, a 1.2 MW hydroelectric project to Hydro Technology Systems.
2. In 1999, the Company completed the program to replace all four runners at the Long Lake hydro facility, which increased the capability from 72.8 MW to 88 MW.
3. On February 23, 2000 the Federal Energy Regulatory Commission issued to Avista a new 45-year operating license for the Noxon and Cabinet Gorge hydroelectric projects on the Clark Fork River.
4. On May 5, 2000 the sale of Centralia, a coal-fired generating facility, to TransAlta was completed. Avista owned 15 percent of the 1340 MW generating plant. Generation was replaced with a short-term market purchase through 2003.
5. Cabinet Gorge upgrades are in progress for a total increase of 52 MW with 9 aMW of energy.
6. Avista selected the 280 MW Coyote Springs II project and three DSM resources for a total of 13 aMW to meet a large portion of its resource needs.

Since the 1997 IRP, generation resource changes along with revised load forecasts in the 2001 IRP reflect significant peak and energy deficits for the Company throughout the planning period. These peak and energy deficits were apparent in the 2000 update to the 1997 IRP and served as the basis for the Company's decision to pursue the Coyote Springs II project. The Coyote Springs II project is currently under construction and is expected to be operational in 2002. Once online, the project will satisfy resource deficits through 2004. After 2004 however, load growth and contract expirations will cause significant shortfalls and create the need to acquire additional generation resources.

### **Electric Sales Forecast**

The 2001 IRP is based on a load forecast prepared during the summer of 1999. Avista utilizes econometric models to produce sales and customer forecasts. Peak load and energy forecasts are derived from the sales forecasts. The total sales forecast in kWh reflects a compound growth rate of 1.9 percent. The forecasted peak load for the year 2001 is 1594 MW and for the year 2009 is 1851 MW. The energy forecast for the year 2001 is 1013 aMW and for the year 2009 is 1159 aMW.

A reasonable level of planning reserves helps the Company ensure adequate generating capacity during periods of extreme weather or unexpected plant outages. Avista's planning reserves are not based on the size or types of its resources. Avista's capacity reserves include components for cold weather, generator-forced outages and contingencies such as river freeze-ups at hydroelectric plants. Although they vary by year, capacity reserves for planning purposes are approximately 12 percent of the Company's total resources under critical water conditions or 15 percent of the forecasted peak system load. The capacity planning reserves that the Company uses have not changed substantially during the past ten years.

### **Resource Planning**

Avista's energy needs and the energy marketplace have both changed considerably since the last IRP report. Avista is projecting a modest but increasing load growth of 1.9 percent over the next ten years. These load increases over the planning period result in the need for additional resources. In addition, the Company's power purchase of 200 MW to replace Centralia generation expires at the end of 2003. Also, the Company has recently experienced dramatic increases in market price and volatility have caused the Company to move away from reliance on the short-term market for a portion of its base resources. In recently updating its risk

management policy, Avista decided to reduce its maximum exposure to market price fluctuations. All of these changes have caused the Company to implement a strategy of acquiring resources to serve its needs.

Avista acknowledges that an understanding of the future prices for electricity is key to any comparative resource decision. Because natural gas generation is likely to be a significant contributor to the cost of operating many generating plants, the future prices for this underlying commodity cannot be overlooked. The Company admits that there is no sure means to accurately predict prices for even the next few years, let alone many years into the future. Avista therefore relies on a set of forward predictions it believes account for the range of possible future outcomes.

The Company's base case natural gas price forecast shows natural gas prices rising from an average annual value of \$2.52 per MMBtu in 2001 to \$6.35 per MMBtu in 2025, the end of the IRP forecast. On average, this equates to a 4.1 percent nominal annual change.

Under the Company's base case electricity price forecast, electricity prices rise from approximately \$32 per MWh in 2004 to \$50 per MWh in 2013. The average nominal increase equals 4.8 percent.

Although these electric and gas price forecasts are included in the IRP, Avista used third party proprietary gas and electricity price forecasts for the evaluations in the 2000 RFP. These forecasts are different than the forecasts included in the IRP. Because Avista used the proprietary forecasts for its own analysis, it appears that it believes them to be a more accurate prediction of future prices. However, since these forecasts are proprietary, they are not made part of the 2001 IRP report. This makes it difficult for other parties to utilize the IRP to make fair comparisons to other alternatives.

### **Load-Resource Balance**

Avista's most recent load-resource balance shows significant deficits throughout the planning period. The Coyote Springs II project that was selected in the 2000 RFP is expected to be operational in 2002. Until then, short-term purchases, energy efficiency measures and hydro upgrades will meet the short-term deficits. The addition of the Coyote Springs II project will erase deficits through 2004. Beginning in 2005 however, both capacity and energy deficits reappear and will require additional new sources of supply. By the year 2009, the peak deficit grows to 216 MW and the energy deficit increases to 128 aMW. These deficit totals are based

on the Coyote Springs II project being included in the load-resource balance, along with a 25 MW gas-fired turbine project called Boulder. Neither of these two projects is included in the load-resource balances shown in the IRP. Moreover, the Boulder project is not even mentioned in the IRP.

It is important to remember that even with the addition of new generation that erases peak and energy deficits on an annual basis, the Company will still experience surpluses and deficits on a monthly, weekly, daily and hourly basis depending on weather and hydro conditions. These swings in the power supply will need to be handled through short-term purchases and sales in the marketplace, and/or the acquisition of other power supply options.

### **Resource Alternatives**

There are multiples of resource options available to the Company. Some are more suitable than others depending on capital cost, dispatchability, accessibility, operating experience, environmental considerations, and other impacts. All resource options will be evaluated, Avista states, including energy efficiency measures.

Some of the options that have been discussed and are under consideration are:

1. Build generating resources.
2. Purchase existing or new generation assets.
3. Complete system upgrades at generating facilities.
4. Negotiate a long-term power purchase agreement.
5. Buy in the short-term wholesale market.
6. Purchase the output of a generating or cogeneration facility.
7. Develop additional energy efficiency and DSM programs.
8. Buy energy efficiency through third party developers.

### **Preferred Resource Strategy**

Avista received 32 bid proposals from 23 parties for a total of over 4,400 MWs in the RFP process. The quality and variety of the proposals, Avista believes, provided a good reflection of the market for new generation. The Company selected the 280 MW Coyote Springs II resource as a self-build project. In addition, three demand side resource bids totaling 13 aMW were chosen.

To meet future deficits, Avista's preferred resource plan will be a combination of low-cost resource acquisitions. Avista expects to do the following:

1. Acquire supply and demand-side resources through the recently completed RFP process.

2. Continue or increase the level of energy efficiency programs under the tariff rider.
3. Re-negotiation of mid-Columbia power purchase contracts.
4. Acquire hydro or thermal unit upgrades when cost effective.
5. Purchase and sell on the short-term markets to match resource needs.
6. Evaluate and acquire, if cost effective, additional supply and generation units to handle variability.

## **2001 Near-Term Action Plan**

Avista's 2001 IRP Near-Term Action Plan can be summarized as follows:

### Public Process

1. Continue free flowing exchange of information with Technical Advisory Committee members.
2. Propose changes to the IRP process that will be useful in the competitive market era.

### Demand-Side Management

1. Pursue energy savings for the next three years with funding from the tariff rider.
2. Consider the development of programs that will allow peak shaving.
3. Determine the potential for Time-Of-Use (TOU) rates.
4. Execute and implement DSM contracts that were selected under the 2000 RFP.

### Supply-Side Resource Options

1. Pursue the base plan for Spokane River Hydro relicensing.
2. Upgrade at least two units at Cabinet Gorge hydro facility.
3. Evaluate the effects of a micro turbine on the system.
4. Installed inlet coolers at Rathdrum combustion turbines for additional summer peaking output (completed July 2000).
5. Evaluated RFP bids, compared to Company options, and selected options that were cost effective and that best met Company's long-term resource need (completed December 2000). Complete transfer agreements for selected supply-side resource.
6. Pursue re-negotiation efforts with mid-Columbia PUDs.
7. Evaluate the need for additional supply or generation units to handle variability in hydro, retail loads, and potential generation outages under projected market conditions.

### Resource Management Issues

1. Implement relicensing programs on the Clark Fork River hydro projects, as part of the "Living License" commitment.
2. Continue to examine and pursue cost-effective efficiency improvements at generation facilities.

## **STAFF RECOMMENDATIONS**

For the most part, Staff believes that Avista's 2001 IRP accurately reflects the load-resource balance of the Company. However, Staff recommends that a revised load-resource balance be prepared and filed with the Commission that reflects the addition of the Coyote Springs II project and the 25 MW Boulder project.

Avista's IRP confirms an immediate need for new generation resources and demonstrates additional needs in the not too distant future. The 2001 IRP serves to document the planning and analysis being carried out by the Company to continue to meet load with an optimum mix of resources. The fact that Avista recognized its need for new generation in the interim between the 1997 IRP and the 2001 IRP is evidence of an ongoing planning process within the Company. Staff was encouraged by the submission of an updated IRP in 2000 supporting the need to proceed with an RFP. Staff encourages similar updates in the future as circumstances warrant.

Staff believes that the most effective time for comments is during the preparation and review stages of the process, not at the end when the final document is filed with the Commission. Consequently, Staff's comments on the 2001 IRP are relatively brief. Staff expects to continue to be intimately involved in the development of future IRPs and will continue to provide input as appropriate.

Staff continues to believe that the IRP process is valuable to both the Company and the Commission. While Avista intimates that suggestions to improve the IRP process have been made verbally and in writing, Staff is unaware of such suggestions and does not know what changes the Company would like to see. Nevertheless, Staff is open to considering changes to the process as might be suggested by the Company.

Staff believes Avista's 2001 IRP meets the Commission's requirements for IRPs as spelled out in Order No. 22299. Staff recommends that the Commission acknowledge Avista's filing.

Dated at Boise, Idaho, this                      day of September 2001.

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Scott Woodbury  
Deputy Attorney General

Technical Staff: Rick Sterling

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