

## DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE**

**FROM: RICK STERLING**

**DATE: DECEMBER 6, 2013**

**RE: JOINT PETITION OF AVISTA CORPORATION AND KOOTENAI  
ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF AMENDMENT  
TO POWER PURCHASE AGREEMENT; CASE NO. AVU-E-12-01**

On November 20, 2013, Avista Corporation ("Avista") and Kootenai Electric Cooperative, Inc. ("KEC") submitted a joint petition seeking Commission approval of an amendment to an existing power purchase agreement ("Amendment").

KEC is an electric cooperative with its headquarters in Hayden, Idaho, that owns and operates a landfill gas electric power generating facility located at the Kootenai County Solid Waste Facility near Bellgrove, Idaho ("Facility"). The Facility has a nameplate capacity of approximately 3.2 MW. The Facility is a Qualifying Facility pursuant to the Public Utility Regulatory Policies of Act of 1978 ("PURPA").

Under the power purchase Agreement, KEC generates and delivers the net output of its Facility to Avista's electric system on an as-available basis. The Agreement was originally approved by the Commission in Order No. 32459 issued in Case No. AVU-E-12-01 on February 15, 2012. The term of the Agreement was originally due to expire on December 31, 2012. A First Amendment extended the term of the Agreement for another year, through December 31, 2013. This Second Amendment extends the term of the Agreement for an additional year, through December 31, 2014.

On a long-term basis, Kootenai desires to sell the Facility's output to Idaho Power, rather than to Avista. *See* Case No. IPC-E-11-23. That proceeding is yet to be fully resolved, so in the

meantime, Kootenai needs to extend its existing sales Agreement with Avista in order to continue to sell the Facility's output.

For the term of the Agreement, Avista will purchase the net output of the Facility that is delivered to the point of delivery. Avista will purchase such net output (up to a maximum of 10 aMW) at a rate equal to the lesser of (i) 85 percent of the weighted average of the daily on-peak and off-peak Powerdex Mid-Columbia Hourly Index, or (ii) the applicable rate based upon the On-Peak or Off- Peak Avoided Cost Rates For Non-Fueled Projects Smaller Than Ten Average Megawatts - Non-Levelized in effect on the effective date ("Avoided Cost Rates").

Under the terms of the original Agreement and the First Amendment, purchases by Avista were to be made at a rate based on the Dow Jones Mid-Columbia Non-Firm Index. Under this Second Amendment, the parties have instead based pricing on the Powerdex Hourly Index. The change from a Dow Jones Non-Firm Index to a Powerdex Hourly Index is necessary because the Dow Jones Index is now published by Platts instead of Dow Jones, and Avista does not subscribe to the Platts Index. Avista believes that the Powerdex Hourly Index is a reasonable substitute for the Dow Jones Non-Firm Index. A comparison provided by Avista indicates that while the two indices differ on a daily and hourly basis, they are very similar over time. Staff believes that the Powerdex Hourly Index is a reasonable proxy for the Dow Jones Non-Firm Index and provides a fair price for the energy product delivered by KEC.<sup>1</sup>

Staff has reviewed the Amendment to confirm that the rates contained in Exhibit D have been properly updated to include the Commission-approved published avoided cost rates for 2014. Pursuant to the Amendment, the Agreement shall continue through December 31, 2014, unless the Agreement is terminated earlier pursuant to its terms. KEC may terminate the Agreement at any time during the term by providing Avista written notice 30 days before such termination.

Avista and KEC jointly request that the Commission issue an order (i) accepting the Agreement as amended by the Amendment, without change or condition, with an effective date

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<sup>1</sup> The continued use of the Dow Jones Non-Firm Index for pricing non-firm energy, and the mathematical mechanics of how the index is applied, are currently at issue in case *IPC-E-13-19, Idaho Wind Partners I, LLC v. Idaho Power Company*, as well as *Idaho Power Tariff Advice No. 13-05, Revisions to Schedule 86 - Cogeneration and Small Power Production Non-Firm Energy*. Although Staff believes that the substitution of the Powerdex Hourly Index for the Dow Jones Non-Firm Index is appropriate for this Second Amendment, Staff does not believe that its recommendation should set a precedent for any positions the Staff may take or any decisions the Commission may make in either of the ongoing Idaho Power proceedings.

of January 1, 2014, and (ii) declaring that all payments made by Avista for purchases of energy under the Agreement be allowed as prudently incurred expenses for ratemaking purposes.

### **STAFF RECOMMENDATIONS**

Because the proposed Amendment simply extends the existing Agreement for another year under its original terms, Staff does not believe further process or procedure is necessary. Staff recommends approval of the proposed Amendment, without change or condition, with an effective date of January 1, 2014. Staff further recommends that the Commission declare that all payments made by Avista for purchases of energy under the Agreement be allowed as prudently incurred expenses for ratemaking purposes.

### **COMMISSION DECISION**

1. Does the Commission wish to approve the amended Agreement jointly submitted by Avista and KEC to extend their existing power sales Agreement by one year without change or condition, with an effective date of January 1, 2014 without further process?
2. Does the Commission wish to declare that all payments made by Avista for purchases of energy under the Agreement be allowed as prudently incurred expenses for ratemaking purposes?



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Rick Sterling

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