Avista Corp.
1411 East Mission P.O. Box 3727
Spokane. Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

RECEIVED
2009 FEB 18 PM 3:24
IDAHO PUBLIC
UTILITIES COMMISSION

AVISTA Corp.

VIA Electronic Mail

February 18, 2008

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
Statehouse Mail
W. 472 Washington Street
Boise, Idaho 83720

RE: Case NO. GNR-E-09-01 – In the Matter of the Fuel Cost Related Adjustment to Published Idaho Avoided Cost Rates for Idaho Power Company, Pacificorp DBA Rock Mountain Power, and Avista Corporation DBA Avista Utilities

Dear Ms. Jewell:

In response to Scott Woodbury's letter dated February 9, 2009, Avista Utilities has reviewed the avoided cost calculations in Case No. GNR-E-09-01 and accepts them as accurately incorporating the draft Northwest Power and Conservation Council natural gas price forecast into the SAR model.

Attached are Avista's comments in the above referenced Case provided to Commission Staff on February 4, 2009.

Please direct questions on this matter to Clint Kalich at (509) 495-4532.

Sincerely,

Linda Gervais

Linda Gervais
Manager, Regulatory Policy
State and Federal Regulation
Avista Utilities
509-495-4975

Enc.

Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170

RECEIVED
2009 FEB 18 PM 3:24
IDAHO PUBLIC
UTILITIES COMMISSION

AVISTA Corp.

February 4, 2009

Via Email Only
Rick Sterling
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702
Email: rick.sterling@puc.idaho.gov

Re: Idaho Draft Avoided Cost Rates

Dear Rick:

On January 26, 2009, you forwarded for review and comment Idaho's draft avoided cost rates. I have reviewed the draft avoided cost rates for Avista Corporation ("Avista") and believe that you have properly calculated costs given your assumptions. That said, Avista has some concerns with those assumptions and provides the following comments on the draft avoided cost rates.

NWPCC Assumptions are Not Yet Final

According to the stipulation agreed by the parties late last year in IPUC Docket No. GNR-E-08-02, Surrogate Avoided Resource ("SAR") assumptions are to be updated as they become available from the Northwest Power and Conservation Council ("NWPCC" or "Council"). Although draft values are now available from the Council, it has not released even its Draft Sixth Power Plan. The final plan is not anticipated until late this year. The values included in the proposed PURPA rate appear to be based on current draft documents and not final values. It is very likely that this information will not change; however, Avista understands that under the stipulation final values will be used. At a minimum, the IPUC should make clear that, once final values are available, the avoided cost rates will be revised to reflect such final values.

The SAR Assumption for EAF Was Not Updated

Notwithstanding the above comment regarding the use of final values issued by the NWPCC, the IPUC has not updated all SAR assumptions identified in the stipulation.

Specifically, the equivalent availability factor ("EAF") was not increased to 92% per the NWPCC draft. The stipulation is clear that the listed SAR values will all be updated, including EAF. Adjusting the EAF to 92% based on Council data lowers the 20-year levelized rate by approximately $2/MWh

Capital Costs Are Overstated

In reviewing the capital cost assumption, it appears that the IPUC selected the highest capital cost value from the NWPCC forecast, both from a historical and projected basis. The NWPCC is forecasting a dramatic fall in gas plant capital costs, from approximately $1,200 per kW presently to $850 per kW. It is inappropriate to set long-term PURPA rates for projects built years into the future at today's inflated (and falling) prices. Another method should be employed.

One approach would be to calculate an avoided cost for each online year, using the NWPCC capacity cost estimate in that year. Another approach would be to accept the long-term cost trend ($852 per kW in 2006 dollars) by averaging prices over the 20-year horizon of 2010 to 2029. Avista is open to other ideas, so long as they reflect anticipated expected long-term project costs. Lowering the capital cost from $1,300/kW in 2008 to $900/kW in 2008 lowers the 20-year levelized rate by approximately $7/MWh.

The IPUC Should Make Clear that the Use of Draft Data in this Circumstance Does Not Set Any Precedent

Assuming the IPUC must proceed with implementing rates based on draft NPCC data in this case, Avista would hope that in the future adjustments are made based on information contained in final documents.

Grandfathering

There is a long history of grandfathering projects due to changing circumstances. To prevent this, Avista would like it made clear to all parties ahead of time that contracts signed based on these rates will not be adjusted in the future, up or down, based on new information. Contracts signed under then-current terms should stand.

Uniformity with Other State PURPA Rates

Idaho PURPA rates are now significantly above rates available to developers located outside of Idaho. The discrepancies are large enough that it would be reasonable to expect these developers to wheel their power from locations outside of Idaho (but potentially within the service territories of multi-jurisdictional utilities) to locations inside simply to acquire the higher PURPA rate. Even with the cost of transmission the economics would appear to support this activity. Although IPUC staff have indicated that they do not believe this would be allowed, Avista is unable to locate any law or order that would prevent this occurring.

<u>Overall PURPA Rate Appears High</u>

Paying nearly $90 per MWh for wind generation when Avista does not obtain the green tag value seems very high. Avista believes there is the potential for it to build wind projects at this cost and retain the green tag value. One solution the company has considered is moving to a Wind SAR where a proceeding could be used to define generic wind costs rather than forcing a wind facility to look like a gas plant.

Avista appreciates the opportunity to comment on the draft avoided cost rates. Please contact me if you have any questions regarding any of Avista's comments.

Respectfully submitted,

Clint Kalich
Manager of Resource Planning and Analysis