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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCLUDE IN BASE RATES THE OWNERSHIP AND OPERATING COSTS OF THE REMAINING SHARE OF THE COYOTE SPRINGS 2 GENERATING PLANT AND TO REDUCE THE POWER COST ADJUSTMENT (PCA) SURCHARGE TO OFFSET THE INCREASE IN BASE RATES.	Case Nos. AVU-E-05-1 **COMMENTS OF POTLATCH CORPORATION**

Potlatch Corporation ("Potlatch"), by and through its attorneys Givens Pursley LLP, files these Comments in response to Avista Corporation's ("Avista") Application in the above-entitled case. For the reasons set forth below, Potlatch urges the Commission to reject Avista's Application on the grounds that Avista's own exhibits demonstrate that the purchase of the second half of the Coyote Springs 2 generating plant ("the CS 2 acquisition") is neither cost effective, prudent, or reasonable.

1. *Avista's Application demonstrates on its face that the CS 2 acquisition is not a cost effective acquisition* <u>*for Avista's ratepayers*</u>.

ORIGINAL

Avista's request to include the CS 2 acquisition in rate base is premised on two factual allegations. Avista first argues that its present value analysis of the plant pegs its value at approximately $67 million in the base case analysis. It further contends that its consultant, Navigant Consulting, arrived at a nearly identical result based on a survey of recent Western United States plant acquisition costs, and a review of Avista's present value analysis. Thus, Avista contends that the $62.5 million purchase price represents a bargain purchase price.

There are several problems with this argument, but the most crucial is that it is entirely irrelevant for the Commission's purposes. To an entity considering the purchase of a merchant generating plant for sales on the open market, the plant's present value or fair market value may be a cogent consideration in the decision whether or not to make the purchase. But when a regulated utility seeks to include a resource in rate base, the issue is whether the acquisition is "just and reasonable" from the ratepayers' point of view. *See* Idaho Code § 61-301. The resolution of this issue in turn depends on two questions—whether the plant is needed to serve the utility's ratepayers,[1] and whether it is the least cost alternative for meeting any need that does exist.

In the present case, Avista has no need for additional generating resources for a number of years. According to its most recent Integrated Resource Plan ("IRP"), Avista "is in a surplus capacity position through 2009." Avista IRP (April 30, 2003) at 7. While the IRP forecasts that Avista's existing energy surplus will be eliminated in 2008, this forecast is premised on the use of a relatively rigorous "80 percent confidence interval." *Id.* at 9. Under average conditions, the IRP projects annual energy surpluses through 2009 as well. *Id.*, Appendix F, Page F-8. Given

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[1] Idaho Code § 61-526 states, in pertinent part, that no electric utility "shall henceforth begin construction . . . of a line, plant, or system . . . without having first obtained from the commission a certificate that the present or future public convenience and necessity require or will require such construction." While the statute explicitly speaks only to the construction of a plant, elementary logic compels the conclusion that utilities should be similarly required to demonstrate a need for acquired plants.

these projected surpluses, the IRP expressly states that "the Company has no immediate need for additional long term resources." *Id.* at 2.

Despite this clear finding in its own IRP that the Company does not need additional resources, Avista entered into a letter of intent to acquire the second half of CS a scant 14 months after the IRP was issued. *See* Avista Application, Exhibit F. Avista now attempts to justify this reversal of position by excerpting a single page from the 2003 IRP (Avista Application, Exhibit G) that purportedly demonstrates that the CS 2 acquisition "is consistent with the 2003 IRP long-term Resource Strategy." Avista Application at 15. The excerpt in question proves no such thing, and it is misleading to suggest otherwise. The single IRP page included in Exhibit G simply points out that Avista intends to acquire a variety of resources during the IRP's ten-year planning horizon.

Apparently anticipating that it might be questioned on the discrepancy between its IRP and its testimony in this case, Avista argues for the first time in this case that its IRP's annual summaries mask pre-2010 deficits in selected quarters of the year, and that these quarterly deficits justify the CS 2 acquisition. Avista Application at 15-19. There are two fallacies in this argument. The first is that there is no evidence that Avista has in the past considered relatively minor quarterly deficits to be relevant for planning purposes, and in fact the IRP's conclusions are irreconcilable with this newly discovered position. Secondly, Avista's own documents demonstrate that the CS 2 acquisition is not a cost effective method of meeting any quarterly deficits that may occur prior to 2011. Pages 7 and 8 of Avista's Exhibit I show that the rate impact of the CS 2 acquisition will be negative until 2011. In other words, Avista's own documents show that, even if minor quarterly deficits occur, the ratepayers will be better off if no additional resources are acquired until at least 2011. *See* Exhibit I, at 7-8 (copy attached).

Furthermore, as the following table demonstrates, the breakeven point for the CS 2 acquisition, i.e., the point at which earlier rate increases are matched by post 2010 cost savings, will not occur until early 2018![2]

Year	Ratepayer Costs ($000)	Ratepayer Savings ($000)
2005	8,847	
2006	7,248	
2007	8,533	
2008	8,468	
2009	2,715	
2010	635	
2011		1,391
2012		3,179
2013		3,605
2014		5,276
2015		6,334
2016		6,962
2017		8,273
Total	**$36,446**	**$35,020**

Potlatch respectfully submits that this is, on its face, an unreasonable imposition on ratepayers. No rationale businessperson would even remotely consider a capital investment that would not be "in the money" for at least thirteen years.

But there is more. Avista's "analysis" is also completely irreconcilable with normal utility planning and its own IRP protocols because it considers the CS 2 acquisition in a vacuum without examining potential resource acquisition alternatives. There is no analysis at all of the possibility of pushing the deficit year beyond 2010 through smaller and less expensive incremental purchases of DSM, small power production, or other resources.[3] Nor is there any

[2] Avista's numbers are labeled "net present value," but it is unclear whether they have actually been discounted for the time value of money. If they have not, the breakeven point for ratepayers, in real dollars, would be stretched out much further, with the exact breadeven date depending on the discount rate used.

[3] In fact, Potlatch has idled generating capacity at its Lewiston plant that could potentially be used to provide additional energy or capacity to Avista. But to date Avista has not responded in any meaningful way to Potlatch's suggestions that the parties should explore the possibility of using these resources to mutual advantage.

comparative analysis of the present value of any resources except other gas-fired plants. In effect, the normal IRP evaluation process is bypassed and discarded completely. The reason is obvious. Given Avista's surplus condition and the size of the CS 2 acquisition, it is almost certain to fail a comparative cost effectiveness test *vis a vis* any reasonable alternative that can be acquired in smaller increments prior to 2011.

Under these circumstances, the Commission has no choice but to conclude that the CS 2 acquisition is unreasonable and imprudent and should not be included in rate base.

2. *Avista's failure to disclose the CS 2 acquisition during the recent rate case deprived the Commission of relevant evidence and denied the Commission and other parties a chance to evaluate the CS 2 acquisition prior to Avista's commitment.*

The facts contained in Avista's Application conclusively demonstrate that Avista was engaged in the evaluation and negotiation of the CS 2 acquisition during almost the entire period that its recent rate case was pending. The first Avista analysis is dated May 2004, when the rate case was just getting started, and the Letter of Intent was executed on June 25, 2004.[4] But Avista never mentioned this fact until it signed a contract shortly after the close of the hearings. This conduct at least borders on bad faith in two respects.

First, as the Commission will recall, Potlatch argued during the rate case that, because the first half of CS 2 was purchased from an affiliate, Avista Corporation should not be allowed to place that plant in rate base at more than fair market value, which Potlatch estimated at no more than $84,560,000. Avista vigorously resisted Potlatch's position, arguing that the only applicable test for rate basing the plant should be whether Avista's conduct was prudent when the decision to purchase was made. What Avista didn't tell the Commission was that it had in its

[4] It is interesting to note that the Navigant analysis cited as justification for the purchase is dated September 2004, well after the Letter of Intent was signed.

files an internal study showing the real value of one half of CS2 was some $40 million less that Avista's $108 million cost and $14 million lower than Potlatch's estimates.

Second, and perhaps more important for the purposes of this proceeding, Avista's failure to disclose its intentions during the rate case denied the Commission the opportunity to evaluate the cost effectiveness of the CS 2 acquisition until it became a *fait accompli*. In effect, Avista deliberately painted the Commission into a corner. If Avista had submitted the CS 2 acquisition to the Commission for consideration before Avista made a commitment, the Commission could have made its decision on the merits without worrying about any adverse consequences to Avista if it rejected the proposed acquisition. Now, however, Avista has upped the ante by forcing the Commission to vote yea or nay on the acceptance of capital costs that are already sunk.

The Commission should not allow itself to be used in this fashion. It should evaluate the CS 2 acquisition just as if it were being asked to consider the reasonableness of the purchase before the fact. If it does so, Potlatch submits that the Commission has no choice but to reject Avista's application on the grounds that the Applicant's own evidence shows that the CS 2 acquisition is neither cost effective or reasonable, and Avista was imprudent in ignoring its own IRP process and in frustrating a before-the-fact review of the acquisition.

DATED this 1st day of March 2005.

GIVENS PURSLEY LLP

By ______________________

Conley E. Ward
Attorneys for Potlatch Corporation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 1st day of March 2005, I caused to be served a true and correct copy of the foregoing document by the method indicated below, and addressed to the following:

Commission Secretary Idaho Public Utilities Commission 472 W. Washington Street P.O. Box 83720 Boise, ID 83720-0074	[ ] U.S. Mail [x] Hand Delivered [ ] Overnight Mail [ ] Facsimile
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Rate Impacts

An analysis was performed to determine the rate impacts of the selected scenario at various purchase prices. The table below shows the estimated rate impacts for the breakeven price of $68 million, based upon the "Forwards/IRP Spark" scenario and the purchase price of $62.5 million that was negotiated as a basis for the non-binding letter of intent to purchase the second half of the Coyote Springs 2 project.

Table 4 – Estimated Rate Impacts

Year	$68 MM ($250/kW)		$62.5 MM ($375/kW)	
	($000)	(percent)	($000)	(percent)
2005	9,849	2.2%	8,847	2.0%
2006	8,218	1.8%	7,248	1.5%
2007	9,467	1.9%	8,533	1.8%
2008	9,368	1.9%	8,468	1.7%
2009	3,582	0.7%	2,715	0.5%
2010	1,470	0.3%	635	0.1%
2011	(587)	-0.1%	(1,391)	-0.2%
2012	(2,404)	-0.4%	(3,179)	-0.5%
2013	(2,860)	-0.5%	(3,605)	-0.6%
2014	(4,559)	-0.7%	(5,276)	-0.8%
2015	(5,647)	-0.8%	(6,334)	-1.0%
2016	(6,304)	-0.9%	(6,962)	-1.0%
2017	(7,644)	-1.1%	(8,273)	-1.1%
2018	(8,151)	-1.1%	(8,751)	-1.2%
2019	(9,655)	-1.2%	(10,226)	-1.3%
2020	(11,238)	-1.4%	(11,780)	-1.5%
2021	(11,466)	-1.4%	(11,979)	-1.4%
2022	(11,354)	-1.3%	(11,838)	-1.4%
2023	(14,595)	-1.6%	(15,050)	-1.7%
2024	(15,636)	-1.6%	(16,062)	-1.7%
NPV	0		(7,477)	

Coyote Springs 2 Rate Impacts

Year	$62.5MM ($439/kW) ($000)	$62.5MM ($439/kW) (percent)	$53MM ($375/kW) ($000)	$53MM ($375/kW) (percent)	$71MM ($500/kW) ($000)	$71MM ($500/kW) (percent)	$107MM ($750/kW) ($000)	$107MM ($750/kW) (percent)
2005	8,847	2.0%	7,171	1.6%	10,431	2.3%	16,950	3.8%
2006	7,248	1.5%	5,625	1.2%	8,781	1.9%	15,093	3.2%
2007	8,533	1.8%	6,970	1.4%	10,010	2.1%	16,091	3.3%
2008	8,468	1.7%	6,961	1.4%	9,890	2.0%	15,748	3.1%
2009	2,715	0.5%	1,264	0.2%	4,086	0.8%	9,729	1.8%
2010	635	0.1%	(763)	-0.1%	1,955	0.4%	7,391	1.3%
2011	(1,391)	-0.2%	(2,737)	-0.5%	(119)	0.0%	5,116	0.9%
2012	(3,179)	-0.5%	(4,475)	-0.8%	(1,955)	-0.3%	3,087	0.5%
2013	(3,605)	-0.6%	(4,853)	-0.8%	(2,427)	-0.4%	2,424	0.4%
2014	(5,276)	-0.8%	(6,474)	-1.0%	(4,143)	-0.6%	518	0.1%
2015	(6,334)	-1.0%	(7,484)	-1.1%	(5,248)	-0.8%	(775)	-0.1%
2016	(6,962)	-1.0%	(8,064)	-1.2%	(5,922)	-0.9%	(1,639)	-0.2%
2017	(8,273)	-1.1%	(9,326)	-1.3%	(7,279)	-1.0%	(3,185)	-0.4%
2018	(8,751)	-1.2%	(9,755)	-1.3%	(7,803)	-1.0%	(3,898)	-0.5%
2019	(10,226)	-1.3%	(11,181)	-1.4%	(9,323)	-1.2%	(5,608)	-0.7%
2020	(11,780)	-1.5%	(12,687)	-1.6%	(10,923)	-1.3%	(7,396)	-0.9%
2021	(11,979)	-1.4%	(12,838)	-1.5%	(11,169)	-1.3%	(7,830)	-0.9%
2022	(11,838)	-1.4%	(12,647)	-1.4%	(11,073)	-1.3%	(7,923)	-0.9%
2023	(15,050)	-1.7%	(15,812)	-1.7%	(14,331)	-1.6%	(11,370)	-1.2%
2024	(16,062)	-1.7%	(16,775)	-1.8%	(15,388)	-1.6%	(12,615)	-1.3%
Net Present Values								
20 Years	*(7,477)*		*(20,113)*		*4,461*		*53,609*	
5 Years	*29,099*		*22,855*		*34,997*		*59,282*	

NOTES:

1) Includes conservative estimate of $2MM for value of heat rate swaps.
2) Assumes no transmission is available during Q2 through 2008.
3) Assumes $450MM base revenue requirement, escalating @ 4% per year.
4) Spark spreads based on forward prices through 2008, IRP prices thereafter.