

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: DECEMBER 12, 2006

SUBJECT: CASE NO. AVU-E-06-10 (Avista)
POWER PURCHASE AND SALE AGREEMENT – STIMSON LUMBER
COMPANY

On December 6, 2006, Avista Corporation and Stimson Lumber Company (collectively Petitioners) filed a Joint Petition with the Idaho Public Utilities Commission (Commission) for an Order approving a Power Purchase Agreement (Agreement) between Stimson Lumber Company (Stimson) and Avista Corporation (Avista; Company) dated October 1, 2006. Also included is a Generator Interconnection Agreement (GIA) between Avista and Stimson.

Stimson Lumber Company operates a thermal wood waste small power electric generation plant at Plummer, Idaho. Stimson's facility is capable of generating up to approximately 6.5 MW of energy. The facility is a qualifying facility (QF) pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA).

The Stimson facility was previously owned and operated by HaleyWest LLC. Stimson has assumed HaleyWest LLC's obligations under a Power Sale and Purchase Agreement between Avista and HaleyWest LLC that expired under its own terms on September 30, 2006. Stimson and Avista both desired that energy deliveries from the facility to Avista continue without interruption following termination of the HaleyWest LLC Agreement.

The Stimson Purchase and Sale Agreement is for a term of five years. Avista will be the sole purchaser of Stimson's generation. For all Net Delivered Output received by Avista that is not surplus energy, Avista shall pay the published non-levelized avoided cost rates for non-fueled projects smaller than 10 MW. For all surplus energy received by Avista, Avista shall pay to Stimson the current month's market energy cost per megawatt hour or the Net Delivered Output purchase price, whichever is lower. Stimson shall operate the facility in such a manner that the hourly

scheduled amount of Net Delivered Output does not exceed 6.5 MW in any hour. Avista shall have the right, but not the obligation to purchase any Net Delivered Output from the facility in excess of 6.5 MW in any hour. The maximum annual amount of electric power that Avista is obligated to purchase is 56,940 MWh in any operating year that is a non-leap year; (57,069 MWh leap year).

Petitioners are not requesting retroactive approval of the Agreement. The Agreement allows for energy deliveries and payments by Avista to Stimson at the published avoided cost rates effective October 1, 2006. In the event that the Commission does not approve the Agreement by January 30, 2007, or approves it subject to conditions unacceptable to the parties, the Agreement will terminate. In such event, Stimson shall refund certain amounts to Avista. Reference Agreement ¶ 5.4.

The Petitioners request Commission approval of the Agreement and the related interconnection agreement. The Petitioners also request a Commission Order allowing deferral and recovery of all power purchase costs subject to Avista's Power Cost Adjustment (PCA) mechanism or as otherwise recovered by Avista through base rates, and declaring that prices to paid for energy and capacity are just and reasonable, in the public interest, and that the costs incurred by Avista for purchasing capacity and energy from Stimson are legitimate expenses. The parties request approval of the Agreement as satisfaction of the entirety of Avista's obligations under PURPA with regard to the facility.

COMMISSION DECISION

Presented for Commission approval is a five-year Power Purchase and Sale Agreement (and related Generator Interconnection Agreement) between Avista and Stimson Lumber. Stimson is a PURPA QF. The Stimson facility has a capacity of 6.5 MW. The contract rate is the non-levelized published avoided cost rate for non-fueled projects smaller than 10 MW. The Petitioners and Commission Staff recommend that the petition be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. Does the Commission agree with the recommended procedure?

Scott Woodbury

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