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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT PETITION )  
OF AVISTA CORPORATION AND STIMSON ) CASE NO. AVU-E-06-10  
LUMBER COMPANY FOR APPROVAL OF A )  
POWER PURCHASE AND SALE AGREEMENT.)  
)  
) COMMENTS OF THE  
) 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 Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on December 22, 2006, submits the following comments.

### BACKGROUND

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 contend they 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 be 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.

## ANALYSIS

Although this is a new power sales Agreement, the facility has a long history of prior power sales agreements and owners. This project initially began with a 35-year contract on August 19, 1982 between Wood Power, Inc. and Washington Water Power to purchase energy and capacity. Rayonier operated a timber mill adjacent to the Wood Power facility. Wood Power provided steam to Rayonier for manufacturing purposes in exchange for which Rayonier provided wood waste fuel to Wood Power.

On September 30, 1996, Washington Water Power entered into an agreement with Wood Power and Rayonier terminating the power sales agreement. In exchange for Wood Power's termination of the power sales agreement, Washington Water Power agreed to pay a total of \$9.5 million to Wood Power because the price paid by the Company exceeded the current and expected market prices for electric power. In accordance with Order No. 26751, the Commission approved deferral of the \$9.5 million paid to Wood Power for termination and approved amortization of the amount over eight years.

In addition to providing for termination of the power sales agreement and payment of the termination amount, the termination agreement also provided that Washington Water Power had no obligation to purchase power from the facility at avoided cost rates for a period of 10 years, but had the option to purchase from the facility at market prices less \$1 per MWh. On April 10, 1997, Washington Water Power exercised its option to purchase from the facility under an agreement set to expire on September 30, 2006. Sometime after this new agreement became effective, the facility was sold to the Coeur d'Alene tribe, who in turn leased it to Plummer Forest Products, who in turn subleased the facility to HaleyWest.

On July 1, 2003 Avista entered into an agreement with HaleyWest to purchase from the facility through September 30, 2006. That agreement has now expired and is being replaced with the new Agreement for which Avista is seeking approval in this case.

As provided in the September 30, 1996 termination agreement, Washington Water Power (now Avista) had no obligation to purchase from the facility at avoided cost rates for 10 years. That 10-year period ended on September 30, 2006, the same date on which Avista's agreement with HaleyWest expired. Thus, there is no longer any restriction on Avista purchasing from the facility at avoided cost rates.

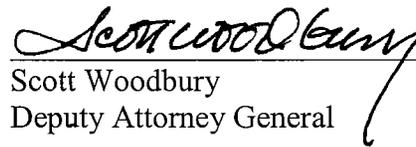
The purchase rates in the Agreement are Avista's current approved avoided cost rates from Order No. 30111 (Case No. AVU-E-06-4). The rates are seasonally adjusted, and are also adjusted for on-peak and off-peak generation based on the daily shape adjustment of \$5 per MWh.

The Agreement originally submitted in this case included a definition for "Market Energy Cost" defined in part as "eighty five percent (85%) of the weighted average of the daily On-Peak and Off-Peak Dow Jones Mid-Columbia Index (Dow Jones Mid-C Index) prices for firm energy." The reference to the Mid-C firm energy price was mistaken. By First Amendment to the Agreement filed December 26, 2006, the Market Energy Cost definition is corrected to instead refer to the Mid-C non-firm energy in accordance with Schedule 62.

### RECOMMENDATIONS

Staff recommends approval of the Stimson Agreement and the First Amendment to the Agreement. Staff further recommends that the Commission allow 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 declare that prices to be 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.

Respectfully submitted this 11<sup>th</sup> day of January 2007.

  
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Scott Woodbury  
Deputy Attorney General

Technical Staff: Rick Sterling

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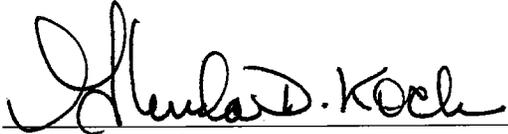
## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF JANUARY 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-06-10, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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