

DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: JANUARY 11, 2007

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 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.

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.

On December 22, 2006, the Commission issued a Notice of Application and Modified Procedure in Case No. AVU-E-06-10. The deadline for filing written comments was

January 11, 2007. The Commission Staff was the only party to file comments. Staff recommends approval of the Stimson Agreement and the first amendment to the Agreement.

COMMISSION DECISION

Submitted for Commission approval in Case No. AVU-E-06-10 is a Power Purchase and Sale Agreement between Stimson Lumber Company and Avista, a First Amendment and a related Generator Interconnection Agreement. The Agreement comports with Commission Orders and requirements and contains current approved avoided cost rates. The rates are seasonally adjusted and are also adjusted for on-peak and off-peak generation based on a daily shape adjustment of \$5.00 per MWh. Staff recommends that the Agreement be approved. Does the Commission continue to find Modified Procedure appropriate? Does the Commission find it reasonable to approve the amended Agreement and related Interconnection Agreement?

Scott Woodbury

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