

DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: NEIL PRICE
DEPUTY ATTORNEY GENERAL

DATE: FEBRUARY 7, 2008

SUBJECT: AVISTA'S 2007 ELECTRIC INTEGRATED RESOURCE PLAN (IRP);
CASE NO. AVU-E-07-08

On August 30, 2007, Avista Corporation dba Avista Utilities ("Avista") filed its 2007 Integrated Resource Plan (IRP) with the Commission pursuant to the biennial filing requirement mandated in Order No. 22299, as modified in Order No. 30262.

On November 21, 2007, the Commission issued a Notice of Filing, Notice of Modified Procedure and Notice of Comment Deadline and solicited comments on the IRP. Subsequently, the Staff was the only party to file comments within the established comment period.

AVISTA'S 2007 INTEGRATED RESOURCE PLAN

Avista's IRP contains the Company's 2007 Action Plan and its assessment of its progress toward implementing its 2005 Action Plan. The 2007 Action Plan contains activities and studies to be developed and studied in the Company's 2009 IRP. It is divided into four main areas: renewable energy and emissions, modeling enhancements, transmission modeling and research and conservation.

The Company's 2007 IRP includes the following highlights:

- The Company has elected to forego future "coal-fired generation due to changing economics and recent legislation effectively barring its use" in the state of Washington. IRP, *Executive Summary*, at i. Fixed price natural gas resources will replace coal-based resources.

- The Company included carbon emissions in its “Base Case” cost estimates for the first time in its 2007 IRP. *Id.* at viii. The Company claims that it has one of the “smallest carbon footprints” out of the nation’s “top 100 producers of energy resources.” *Id.*
- The Company estimates system-wide annual energy deficits beginning in 2011, “with loads exceeding resource capabilities by 83 aMW” and rising to 272 aMW in 2017 and to 513 aMW in 2027.” *Id.*
- The energy resource deficits are attributable to an estimated 2.3 percent energy and capacity load growth through 2017 and the expiration of “certain long-term [supply] contracts.” *Id.*
- “Conservation acquisition is forecast to rise approximately 25 percent” over the Company’s 2005 IRP “and by more than 85 percent from the 2003 IRP.” *Id.* at v.
- “A Western Interconnect-wide study was performed to understand the impact of regional markets” on Avista. *Id.* at ii. The Company submitted the data compiled from the various regional markets to a “monte-carlo style analysis” and “the results were used to estimate the Mid-Columbia electricity market.” *Id.*
- The Company’s Preferred Resource Strategy (PRS) includes the addition of 350 MW of CCCT (Combined Cycle Combustion Turbine); 300 MW of wind; 35 MW of other renewable resources; and 87 MW of conservation between 2007 and 2017. *Id.*, Table 2, at vi. Beginning in 2010, Avista plans to secure the output from the Lancaster Generation Facility, a 245 MW gas-fired combined-cycle combustion turbine with an additional 30 MW of duct firing capability.

STAFF COMMENTS

Staff acknowledged the relatively constrained resource planning environment that Avista and other electric utilities currently find themselves. Carbon emission and renewable portfolio statutes in the surrounding States of Washington, Oregon and California have served to limit Avista’s resource planning options. While the State of Idaho has yet to enact carbon emission or renewable portfolio standards, multi-jurisdictional utilities like Avista find it impracticable to implement new resource generation projects exclusively to serve Idaho resource loads.

Staff also notes that each of the traditional options available for new resource generation pose unique problems. Gas-fired generation exposes the Company and its customers

to the risk of fuel price volatility. As mentioned earlier, coal-fired generation is being phased out as a resource option due to evolving carbon emission standards. Integrated Gasification Combined-Cycle (IGCC) offers some promise, but it is evident that the technology must be further developed before it can be considered a serious near term alternative.

As a result, Staff believes that it is imperative that Avista take full advantage of opportunities to minimize its anticipated load growth by maximizing the use of cost-effective demand-side management (DSM) programs, fully exploit renewable generation options and closely examine future advances in fossil-fuel generation technology. Additionally, Staff opines that electric utilities should consider the potential for integrating nuclear energy into their long-term resource planning. Staff strongly urges the development of new and innovative methods to counteract the price volatility normally associated with gas-fired generation, as it becomes a more dominant resource in their portfolio. Staff believes that Avista's 2007 Action Plan, as outlined in its 2007 IRP, will allow the Company to meet its future load obligations in a cost effective manner.

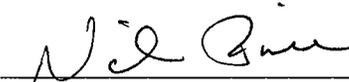
STAFF RECOMMENDATION

Staff believes that Avista has met the Commission's requirements with regard to its 2007 IRP filing. However, Staff advises the Company to be mindful of the increased volatility that will likely accompany the Company's increased reliance on natural gas resources and develop new strategies to reduce such volatility. Staff recommends that Avista closely monitor advances in "clean coal technology" and consider nuclear energy in future IRP filings. Staff is confident that the Company can forestall its anticipated resource deficit from 2011 to approximately 2014 through the combination of adding the Lancaster gas-fired combined cycle plant to its portfolio, acquiring additional renewable resources and increasing the output of its DSM programs.

Overall, Staff believes that Avista has "done a good job in assessing its load-resource conditions, incorporating demand-side management, evaluating new resource alternatives, analyzing risk and in selecting a reasonable portfolio of new resources." Staff therefore recommends that the Commission accept and acknowledge Avista's 2007 Integrated Resource Plan.

COMMISSION DECISION

Does the Commission wish to accept and acknowledge Avista's 2007 IRP filing?



Neil Price

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