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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION DBA AVISTA UTILITIES' FILING OF ITS 2009 INTEGRATED RESOURCE PLAN	**CASE NO. AVU-E-09-09**
	COMMENTS OF THE COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Filing and Notice of Modified Procedure issued in Order No. 30928 on October 9, 2009, submits the following comments.

BACKGROUND

On August 31, 2009, Avista Utilities (Avista, Company) filed its 2009 Electric Integrated Resource Plan (IRP) with the Commission pursuant to the Commission's biennial IRP filing requirements outlined in Order No. 22299, and later modified in Order Nos. 24729 and 30262. This is the Company's tenth Integrated Resource Plan. The Commission requires regulated electric utilities to file an IRP every two years that projects future load requirements and explains how the Company plans to deliver low-cost, reliable energy to its customers.

The 2009 IRP contains sections describing Avista's current and forecasted loads and resources, energy efficiency programs, environmental policy, transmission and distribution systems, generation resource options, market analysis, preferred resource strategies and a summary of actions taken by the Company in accordance with its 2007 IRP Action Plan.

ANALYSIS

Public Process

Avista's 2009 IRP was developed with assistance from its Technical Advisory Committee (TAC). Members of the TAC include customers, Commission Staff, consumer advocates, academics, utility peers, government agencies and other interested parties. During the IRP development process, each TAC member was asked to render input and their individual assessment of the modeling assumptions, processes and general direction of the planning process. The Company sponsored several TAC meetings throughout the course of the development of the 2009 IRP. Each meeting focused on specific planning topics, reviewed the status and progress of planning activities, and solicited ongoing input as the IRP was developed.

Staff actively participated throughout the process. Moreover, Staff was in close contact with Avista throughout the IRP process and provided its opinions and input. Staff thoroughly reviewed the draft IRP and provided comments. The Company satisfactorily addressed Staff s comments in preparing the final IRP document.

Public participation in the 2009 IRP process was improved, although it continues to be difficult to achieve full participation from a broad cross section of customers and interest groups. Staff urges Avista to continue its efforts to involve key customers, customer group representatives, environmental organizations, and others to maintain a comprehensive and balanced representation on the Technical Advisory Committee.

Load Forecast

Avista predicts its peak loads to grow 1.7 percent annually through 2029. Loads are moderately lower in the 2009 IRP compared with the 2007 IRP due to the cumulative impact of additional conservation measures from the 2007 IRP being incorporated in the forecast.

The national economic forecast upon which the 2009 IRP is based was prepared in March 2008, while county-level economic estimates were completed in June 2008. The actual forecast

was completed in July 2008. Consequently, because the load forecast was completed more than a year before the final IRP was submitted, Staff does not believe that the full impact of the current recession is reflected in the Company's load forecast. Normally, Staff would be concerned about the accuracy of the forecast, but in this case, Avista is in a surplus condition for several years into the future. The effects of the recession are expected to be temporary, and load growth is expected to rebound to forecasted levels in the near future. Staff believes that the temporary effects of the recession are unlikely to significantly influence the size or timing of new resource additions planned much further in the future.

Avista's capacity and energy positions are summarized in the table below:

Net Position Forecast

Net Position	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Energy (aMW)	309	185	123	110	93	59	38	31	-27	-35
Capacity (MW)	293	124	53	31	0	-45	-74	45	11	-46

As a general guideline, the annual energy position is used to determine when the Company needs to acquire additional base-load energy resources. Absent new generation, energy deficits begin in 2018 with loads exceeding resource capability by 27 aMW. Energy deficits steadily increase to 527 aMW in 2029. Load growth and expiration of some long-term contracts account for the significant majority of increasing deficits during this period.

On a monthly basis, Avista is frequently deficit in some months even though its annual position is surplus. In other months, particularly during spring runoff, Avista is in a surplus position. As usual, the Company plans to balance its monthly positions through short-term market purchases or sales, exchanges or other arrangements. However, over the long term, the Company's strategy is not to rely on long-term market purchases to serve future base load requirements.

Avista's capacity position is surplus through 2014. It then carries minor deficits in 2015 and 2016 due to expiration of an exchange contract before returning again to a deficit position in 2019. Capacity deficits grow to 823 MW by the end of the study in 2029. For the most part, future capacity requirements will be met through the acquisition of new resources, which provide both capacity and energy.

Staff believes that the load forecast prepared and used by Avista for its 2009 IRP is reasonable. In addition to considering a base case forecast, "high" and "low" economic forecasts

were also prepared to evaluate plausible changes in load due to population change within the Company's existing service area.

Environmental Policy

Environmental issues are becoming an extremely important consideration in electric utility integrated resource planning because of the restrictions they impose on new generation alternatives and because of the cost of compliance for continuing to operate existing generation. Avista's 2009 IRP devotes an entire chapter to environmental policy. The Company has formed an internal Climate Change Committee to monitor emissions legislation and issues. The IRP outlines the Company's position on climate change legislation and discusses various greenhouse gas concerns for resource planning. Planning is more difficult and uncertain because of the variety of different state and federal legislation, nearly all of which are in various stages of development. For the 2009 IRP, Avista is planning to meet all existing greenhouse gas requirements in Washington, and has made reasonable assumptions about the content, timing and costs of meeting proposed federal requirements.

Demand Side Management and Supply Side Efficiency

Avista plans to acquire 102 aMW of energy efficiency over the next 10 years and 226 aMW over 20 years. These acquisitions will also reduce the system peak. Efficiency gains are expected to shave 153 MW from the 2020 peak, and 339 MW from the 2029 peak.

Energy Efficiency

Avista's IRP process includes multiple steps in identifying energy efficiency improvement potentials, both on the supply-side and demand-side. The Regional Technical Forum's (RTF) evaluation of energy efficiency potential was used as Avista's starting point. In developing its 2009 IRP, the Company says it evaluated about 3,000 efficiency concepts. The total resource cost-effectiveness (TRC) of individual energy efficiency measures were estimated and used as a screening tool. The TRC cost-effectiveness was calculated by comparing each measure's estimated savings over its 8,760-hour annual resource profile to the 8,760-hour avoided supply-side cost structure.

In developing its high-level energy efficiency targets, the Company relies upon the Northwest Power and Conservation Council's Power Plans and its own contracted studies of energy savings potentials. Its last contracted study was completed in 2005 and Avista says it will have this study updated in preparation for its 2011 IRP process.

Avista says it uses its IRP results to budget for energy efficiency measures, determine manpower resources needed, and identify general efficiency targets. But, because the IRP results lack sufficient detail, the Company does not use the IRP results as an energy efficiency business plan.

In summary, Avista says the IRP process helps the Company develop its conservation business plan and establish acquisition targets, while meeting its regulatory requirements. Importantly, Avista concludes that "...numerical targets do not displace the Company's fundamental obligation to pursue a resource strategy that best meets customer needs under a continually changing environment. The efficiency targets established in this IRP planning process may be modified as necessary to meet these evolving obligations."

Staff appreciates Avista's long-held and continuing commitment to helping its customers reduce their bills through cost-effective demand-side management (DSM). Staff further appreciates that Avista does not limit its review and recalculation of DSM resource potential to the biennial IRP process and, instead, is continually searching for ways to cost-effectively help customers use energy more efficiently. Staff believes Avista's approach to identifying and updating DSM potential is well-reasoned.

However, Staff notes that throughout the IRP, Avista references only the TRC for evaluating cost-effectiveness potential. Historically, the TRC is but one of four cost-effectiveness tests that Avista uses to evaluate DSM – the other three are the utility cost test (UCT), the participant test, and the ratepayer impact test (RIM). While there is no indication that Avista will cease to evaluate DSM using all four of the above tests, we caution against a possible over-reliance upon the TRC. The TRC is a good test, but by itself it is not sufficient for ensuring maximum, long-term cost-effective DSM for a utility's entire customer base and equitable treatment among its customers.

Resource Options

Avista considered a variety of options to meet future resource deficits. Besides conservation, the Company considered upgrading existing hydro projects, building new facilities and contracting with other energy companies for future delivery.

Avista has already been upgrading many of its hydro facilities over the past several years, and plans to upgrade others in the next two years. While the upgrades typically add small amounts of additional capacity, they are cost effective and do help to defer the need for other resources. In addition to the small upgrades, Avista designed and studied other larger potential upgrades at Long Lake and Cabinet Gorge. These upgrades were too costly in previous studies, but increasing market prices, growing capacity needs, renewable energy incentives and carbon emission costs may make these resources financially more attractive now. Avista also developed preliminary plans to replace the powerhouse at Post Falls, doubling its capacity. These large hydro upgrade options have attracted attention during this IRP cycle and will be further studied between now and the 2011 IRP.

Both simple and combined cycle gas-fired combustions turbines were evaluated as generation alternatives in the 2009 IRP. The technology provides a reliable source of both capacity and energy for a relatively inexpensive upfront investment. The main disadvantage is generation cost volatility due to reliance on natural gas.

Pulverized and integrated gasification combined cycle (IGCC) coal plants were included as resource options for the IRP. Although legislation was recently passed in Washington State effectively prohibiting local electric utilities from developing coal-fired facilities that do not sequester emissions, a coal facility could legally be constructed to serve Idaho loads, where no emissions performance standard exists. However, Avista is not considering a pulverized coal facility for the 2009 IRP and believes such a facility is unlikely to be approved.

Concerns over the environmental impact of carbon-based generation technologies have increased demand for renewable generation, particularly wind. Avista studied several wind resource locations, including the Reardan site just west of Spokane, the Columbia Basin, Montana, small scale sites, and offshore wind development. Transmission availability was also considered in the analysis.

Numerous other resource options were considered in the IRP analysis, including solar, geothermal, biomass and wood generation, small cogeneration, nuclear, tidal and wave, hydrokinetics, pumped storage, and large scale hydro.

Washington State Renewable Portfolio Standard

In the November 2006 general election, Washington State voters approved Citizens Initiative 937 (I-937), the Energy Independence Act. The initiative requires utilities with more than 25,000 customers to source three percent of their energy from qualified renewables by 2012, nine percent by 2016, and 15 percent by 2020. Utilities also must acquire all cost effective conservation and energy efficiency measures. **Even though Avista does not require new resources to meet forecasted loads through 2017, this new law requires Avista to acquire qualified renewable generation or Renewable Energy Certificates resources it otherwise would not need to meet the initiative's renewable goals.**

Avista will meet or exceed its renewable requirement goals between 2012 and 2015 with a recent REC purchase and qualified hydroelectric upgrades. The Company will need its next block of qualifying resources prior to 2016 and another block will be required prior to 2020. Assuming Avista meets RPS requirements with wind, it will require 150 MW of nameplate capacity by 2016 and a similar amount by 2020.

On September 23, 2009, Avista released a request for proposals (RFP) for up to 35 aMW of renewables (up to 150 MW nameplate if wind). Bids were submitted on October 23, 2009. The Company is currently evaluating the bids and expects to make a final selection in February 2010. Avista concurrently solicited bids to develop the Reardan wind project site near Spokane, for which the Company owns the development rights. The Company has informed Staff that bids for development of the Reardan site will be evaluated against the best bids from the RFP to select the best combination of projects to meet I-937 requirements.

The issuance of the renewables RFP, as stated previously, is not being driven by an immediate need for new resources, but is instead being driven by the need to meet Washington State renewable portfolio standards (RPS). Moreover, assuming the RFP is successful, renewable resources will be acquired approximately four years earlier than is necessary to keep pace with Washington's RPS requirements. Avista's reasons for acquiring renewable resources early is to take advantage of federal production tax credits that expire at the end of 2012, to possibly

exercise an option to develop an attractive wind project site within its service territory near its load center — a site that may not still be available to Avista in the future, and to take advantage of currently attractive prices for wind turbines.

Staff takes no position here on the prudence of Avista's renewable resource acquisition decisions, but mentions it here because renewables acquisition is one of the most significant outcomes of the 2009 IRP. The choice of the specific selected resources, the decision to acquire resources early, and the allocation of costs amongst state jurisdictions will all be addressed later when Avista seeks to recover costs through rates.

Preferred Resource Strategy

Avista's Preferred Resource Strategy (PRS) provides direction and guidance for resource acquisitions over the 20-year IRP planning horizon. The 2009 PRS is the least-cost achievable plan accounting for climate change and fuel supply and cost risks. Selection of the PRS considered generation, transmission, and emissions costs for the various alternatives. The PRS strikes a reasonable balance between keeping average costs and variation in year-to-year costs low.

The 2009 PRS consists of hydro upgrades, wind, conservation, distribution efficiency programs and natural gas-combined cycle gas turbines. The specific resources contained within the PRS for the 2009 IRP, in cumulative nameplate capability, are shown below:

2009 Preferred Resource Strategy

Resource	By the End of Year	Nameplate (MW)	Energy (aMW)
NW Wind	2012	150.0	48.0
Distribution Efficiencies	2012-2015	5.0	2.7
Little Falls Unit Upgrades	2013-2016	3.0	0.9
NW Wind	2019	150.0	50.0
CCCT	2019	250.0	225.0
Upper Falls	2020	2.0	1.0
NW Wind	2022	50.0	17.0
CCCT	2024	250.0	225.0
CCCT	2027	250.0	225.0
Conservation	All Years	339.0	226.0
Total		1,449.0	1,020.6

Following the acquisition of the wind/renewables that Avista is currently seeking, the next large capacity addition would be a 250 MW combined cycle combustion turbine in 2019.

Another 150 MW of wind capacity is also needed by the end of 2019 for the 15 percent Washington RPS goal, followed by a 50 MW wind resource in 2022 to meet additional RPS obligations created by load growth. In 2024 and 2027, another 250 MW natural gas combined-cycle plant is needed to meet a capacity deficit created by the expiration of the Company's Lancaster tolling agreement.

Differences from the 2007 IRP

The major change from the 2007 PRS is a greater reliance on wind to meet renewable portfolio standards, rather than a combination of wind and other renewables. More wind was selected because it is the only renewable resource available in quantities large enough to affect utility planning. It also is more actionable and controllable by the utility, allowing for less reliance on third-party developers that might or might not respond to utility request for proposal efforts. The 2009 plan includes 750 MW of natural gas and 350 MW of wind. The 2007 plan included 677 MW of natural gas-fired generation and 300 MW of wind.

Risk Analysis

Avista made considerable analytical effort to evaluate the Preferred Resource Strategy against several alternative strategies under various scenarios of load, hydro conditions, emissions charges, wind generation, capital costs and fuel prices. In addition, scenarios were investigated that included availability of nuclear plants beginning in 2020, and an influx in the use of electric cars. Overall, the Preferred Resource Strategy performed well, both in the Base Case and under numerous scenarios. The chosen combination of resources provides for a significant reduction of risk at a very modest impact to expected costs.

Staff believes that the Company's risk analysis was rigorous and thorough, and that a reasonable range of risks and scenarios were considered. Staff concurs that the Preferred Resource Strategy selected by the Company is superior to the other resource strategies considered in the IRP.

Transmission

The 2009 IRP devotes a chapter to transmission and distribution issues. In the past few years, Avista has completed several transmission projects to increase capacity and improve reliability. The Company also continues to plan for transmission improvements to its own

system, and to actively participate in numerous regional transmission planning groups. Staff is encouraged that the transmission planning process and the IRP process appear to much more closely aligned and better coordinated than in the past.

Because many potential new generating resources are likely to be located away from load centers and perhaps outside of Avista's control area, transmission analysis has been performed to estimate the costs of new transmission and transmission upgrades. Additional analysis has also been done to quantify the costs to interconnect projects at specific locations.

A completely new element in the 2009 IRP is analysis of potential distribution system efficiency improvements. Avista has formed a System Efficiencies Team consisting of operational, engineering and planning staff to develop a plan to evaluate potential energy savings from transmission and distribution (T&D) system upgrades. The first phase of the project summarized energy savings from distribution feeder upgrades. The second phase, which is now underway, combines a study of transmission system configurations with "right sizing" distribution feeders to reduce system losses, improve system reliability and meet future load growth. Economic analysis is being performed to weigh capital investment costs against energy savings and reductions in O&M costs. Although the energy savings are likely to be fairly small, they nevertheless will help contribute to meeting future load growth while at the same time reducing costs and optimizing system performance. Staff is encouraged by Avista's initiative to look beyond traditional new resource options and conservation as ways to meet expected load growth.

2009 Action Plan Items

Avista's IRP contains the Company's 2009 Action Plan as well as its assessment regarding its progress toward implementing its 2007 IRP Action Plan. The 2009 Action Plan contains activities and studies to be developed and studied in the Company's 2011 IRP. It includes specific items in four areas: resource additions and analysis, energy efficiency, environmental policy, modeling and forecasting enhancements, and transmission planning.

Significant 2009 Action Plan items are listed below.

Resource Additions and Analysis

- Continue to explore the potential for wind and non-renewable resources.
- Issue an RFP for the Reardan wind site, and up to 100 MW of wind or other renewables in 2009. (currently underway)
- Finish studies regarding costs and environmental benefits of the large hydro upgrades at Cabinet Gorge, Long Lake, Post Falls and Monroe Street.
- Study potential locations for the natural gas-fired resource identified to be online between 2015 and 2020.
- Continue participation in regional IRP processes, and where agreeable find resource opportunities to meet resource requirements on a collaborative basis.

Energy Efficiency

- Pursue American Reinvestment and Recovery Act of 2009 funding for low income weatherization.
- Analyze and report on results of the July 2007 through December 2009 demand response pilot in Moscow and Sandpoint.
- Have an external party do an updated study on technical, economic, achievable potential for energy efficiency in Avista's service territory.
- Study and quantify transmission and distribution efficiency concepts as they apply toward meeting Washington RPS goals.
- Update processes and protocols for conservation measurement, evaluation and verification.
- Determine potential impacts and costs of load management options.

Environmental Policy

- Continue to study the potential impact of state and federal climate change legislation.
- Continue and report on the work of Avista's Climate Change Committee.

Modeling and Forecasting Enhancements

- Refine cost driver relationships in the stochastic model.
- Continue to refine PRiSM by developing a resource retirement capability, adding the ability to solve for other risk measurements and by adding more resource options.
- Continue developing Loss of Load Probability and Sustained Peaking analysis for inclusion in the IRP process, and confirm appropriateness of the 15 percent capacity planning margin assumed for this IRP.
- Continue studying the impacts of climate change on the load forecast.
- Study load growth trends and their correlation to weather patterns.

Transmission Planning

- Work to maintain/retain existing transmission rights on the Company's transmission system, under applicable FERC policies, for transmission service to bundled retail native load.
- Continue involvement in BPA transmission practice processes and rate proceedings to minimize costs of integrating existing resources outside of the Company's service area.
- Continue participation in regional and sub-regional efforts to establish new regional transmission structures (ColumbiaGrid and other forums) to facilitate long-term expansion of the regional transmission system.
- Evaluate costs to integrate new resources across Avista's service territory and from regions outside of the Northwest.
- Study and implement distribution feeder rebuild projects to reduce system losses.
- Study transmission reconfigurations to economically reduce system losses.

The 2009 Action Plan, Staff believes, is a reasonable set of actions that will allow Avista to continue to meet its load obligations cost effectively, while also supporting the preferred resource strategy identified in the IRP and improving the planning process going forward.

STAFF RECOMMENDATIONS

Avista's need for new resources is driven primarily by the need to meet RPS requirements in Washington, not by its load-resource balance. The Company's Preferred Resource Strategy

calls for acquisition of up to 150 MW of wind or other renewables by the end of 2012, several years in advance of its need to either satisfy its Washington RPS requirements or its near-term load growth. An RFP is currently underway to acquire these renewables, most likely wind. Staff recommends that the Commission scrutinize the Company's decision for early acquisition of renewables at the time it makes a filing to begin recovering the cost of the renewables in customers' rates. At that time, the Commission should also address the sharing of costs between Idaho and Washington for resources not necessarily needed to meet load but acquired to meet Washington RPS requirements.

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. However, because the load forecast upon which the 2009 IRP is based was finalized before the full impact of the current recession were known, Staff recommends that Avista pay particular attention to revising its load forecast as appropriate for its 2011 IRP.

Staff recommends that Avista's 2007 IRP be accepted for filing and acknowledged.

Respectfully submitted this 8th day of December 2009.

Neil Price
Deputy Attorney General

Technical Staff: Rick Sterling
Lynn Anderson

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8TH DAY OF DECEMBER 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-09-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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