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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE JOINT)
APPLICATION OF AVISTA CORPORATION) CASE NO. AVU-E-11-6
AND STIMSON LUMBER COMPANY FOR)
APPROVAL OF A POWER PURCHASE) COMMENTS OF THE
AGREEMENT.) COMMISSION STAFF
_____)**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32412 on December 15, 2011, submits the following comments.

BACKGROUND

On November 25, 2011, Avista Corporation and Stimson Lumber Company (the Parties) filed a Joint Application with the Commission requesting approval of a five-year Power Purchase Agreement (Agreement) between Avista and Stimson Lumber dated November 16, 2011. The Application states that Stimson Lumber operates a thermal wood waste small power electric generation plant located at Plummer, Idaho. Stimson Lumber is a qualifying facility (QF) under the applicable provisions of the Public Utility Regulatory Policies Act of 1978 (PURPA) and is capable of generating up to 6.5 megawatts (maximum capacity, nameplate) of energy.

The Application states that, upon its effective date, the Agreement will replace the power purchase agreement (Original Agreement) between the Parties originally approved by the

Commission in Order No. 30224, issued on January 19, 2007. The Original Agreement expired on September 30, 2011.

The Commission approved an Amendment to the Original Agreement, extending the term “until either the effective date of a new power purchase agreement executed between the Parties or January 2, 2012, whichever is earlier” in order to allow the Parties additional time to complete their negotiations and execute a new agreement. Order No. 32382 at 2. The Amendment utilizes the published avoided cost rates applicable to PURPA contracts entered into on or after August 30, 2011.

The Parties have now completed their negotiations and have executed an Agreement which is presented for Commission approval.

STAFF ANALYSIS

The new Agreement differs from the Original Agreement in several ways. Each of these differences is discussed below.

Rates

Undoubtedly, the most significant difference between the new Agreement and the Original Agreement is that the rates have been updated. Rates in the new Agreement are the non-levelized rates from Order No. 32337. These rates are approximately 12-14 percent less than the rates in the Original Agreement, due primarily to lower natural gas prices.

Market Energy Definition

Market Energy Cost has been redefined in the new Agreement to now reference daily firm Mid-C on-peak and off-peak index prices reported by the Intercontinental Exchange (ICE), rather than non-firm prices reported by Dow Jones. ICE daily on-peak and off-peak prices are not equivalent to non-firm Dow Jones prices, nevertheless, the differences are relatively small. ICE prices are much more readily available than Dow Jones prices, and are more commonly used in the Northwest. In addition non-firm energy is now very thinly traded on Dow Jones, making Dow Jones prices no longer a very representative index for valuing surplus energy in PURPA contracts. Staff believes that the practical effect of the change in indexes will be very minor.

Renewable Energy Credits

The Original Agreement made no reference to Renewable Energy Credits (RECs; Environmental Attributes). The new Agreement defines them, but simply states that ownership of RECs "shall be determined consistent with applicable State and Federal law." Both parties agree that the facility has the potential to generate RECs and that those RECs may have some value either in satisfying future state or federal requirements or as a marketable commodity. However, both parties are apparently amenable to leaving the disposition of RECs up to some future determination given that REC ownership is currently undecided in Idaho. Staff also believes this is reasonable.

General Liability Insurance

Under the new Agreement, Stimson is required to carry and maintain comprehensive general liability insurance of not less than \$2 million per occurrence. This is an increase from \$1 million in the Original Agreement. Order No. 29482 requires that general liability insurance of at least \$1 million be carried by owners of PURPA projects. Avista negotiated a higher minimum insurance requirement because it believes the \$1 million insurance requirement of the Original Agreement may no longer be sufficient to cover the potential cost of current industry claims. Staff has no objection to the \$2 million amount in the new Agreement since it was mutually agreed upon by the parties and exceeds the minimum requirement in Order No. 29482.

Facilities Charges

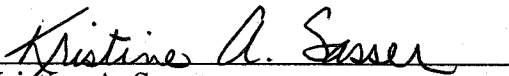
Stimson is required under the new Agreement to pay \$790 per month for sole use of facilities installed, owned, operated and maintained by Avista. While facilities charges were inadvertently omitted in the prior power purchase agreement dated October 1, 2006, facilities charges for these dedicated facilities were included in the previous power purchase agreement dated July 1, 2003. Avista rebuilt its Plummer Substation in March 2009 and the facilities charges included in the current Agreement reflect the cost of the upgraded dedicated facilities. Staff believes facilities charges are appropriate in this instance because they compensate Avista for Stimson's use of *dedicated* facilities.

Staff believes that the only significant difference between the new and Original Agreement is the revised rates. The rates in the new Agreement conform with the current rates contained in Order No. 32337. All of the other differences are either minor or are mutually acceptable to both parties.

RECOMMENDATION

Staff recommends that the Commission approve the Agreement without change or condition, with an effective date of January 15, 2012, and declare that all payments made by Avista for purchases of energy under the Agreement be allowed as prudently incurred expenses for ratemaking purposes.

Respectfully submitted this 30TH day of December 2011.


Kristine A. Sasser
Deputy Attorney General

Technical Staff: Rick Sterling

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CERTIFICATE OF SERVICE


I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF DECEMBER 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-11-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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