

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION FOR) CASE NO. AVU-E-13-02
APPROVAL OF ITS ELECTRIC SERVICE)
AGREEMENT WITH CLEARWATER) ORDER NO. 32841
PAPER CORPORATION)**

On April 15, 2013, Avista Corporation (“Avista” or “Company”) and Clearwater Paper Corporation (“Clearwater”),¹ collectively referred to as the “Parties,” filed a Joint Application, including exhibits, seeking the Commission’s approval of their new Electric Service Agreement (“ESA”). The Parties’ current ESA, approved by the Commission in Case No. AVU-E-03-07, Order No. 29418, began on January 15, 2004, and is set to expire on June 30, 2013.

On April 30, 2013, the Commission issued a Notice of Application and Modified Procedure with a comment deadline of June 14, 2013. *See* Order No. 32798. Commission Staff (“Staff”) was the only the party to submit written comments within the established comment period.

AVISTA-CLEARWATER JOINT APPLICATION

The Parties’ new ESA proposes a five-year term beginning on July 1, 2013. The ESA provides for the sale of energy to serve Clearwater’s load at the Facility and addresses Clearwater’s Generation. The following is a synopsis of the essential terms and conditions of the Parties’ new ESA:

1. The ESA will continue after the initial term on a year-to-year basis unless either Party elects to terminate it with 90 days prior written notice to the other Party;
2. The ESA is conditioned upon approval by the Commission of the ESA as a settlement of all known existing disputes between the Parties, without precedential value and without prejudice to the Parties’ positions on similar issues in the future;
3. Clearwater’s Generation shall be metered, consistent with Paragraphs 4(B)(ii) and 5 of Schedule 63 of Avista’s Idaho tariff, such that Clearwater shall use the Generation to serve its load at the Facility;

¹ Clearwater is a corporation operating a paper manufacturing facility located in Nez Perce County, Idaho (the “Facility”). Clearwater owns and operates a generation system at the Facility that is capable of generating approximately 132.2 megawatts of energy (hereinafter “Generation”).

4. Clearwater shall purchase and receive from Avista all of the electric power requirements at the Facility that exceed the electric power generated by Clearwater's Generation. Avista will continue to serve Clearwater's additional power requirements under Avista's "Extra Large General Service To Clearwater Paper's Facility" Schedule 25P rates, including all applicable rate adjustments, unless the Commission issues an order in the future authorizing different billing rates;
5. The Parties agree that all energy (kWh) consumption under the terms of this ESA will be billed at Schedule 25P rates. For purposes of capacity/demand ("kVA"), all kVA billed above 55,000 kVA ("2nd Demand Block") will be billed at an initial rate of \$2.00 per kVA. The first 3,000 kVA will continue to be covered under a monthly flat rate (currently \$12,500 per month), and the next 52,000 kVA ("1st Demand Block") will be billed at the current volumetric demand rate (currently \$4.50 per kVA);
6. If Clearwater generates electric power in excess of the electric power requirements of the Facility, Clearwater will be credited for the excess kWh generated during the billing period in a manner consistent with Paragraphs 4(B)(ii) and 5 of Schedule 63 of Avista's Idaho tariff;
7. Clearwater is permitted, after 90 days written notice to Avista of its intent to terminate the ESA, to sell the output of the Generation to any third party. Clearwater would be responsible for making all necessary arrangements to facilitate the sale of the output of the Generation to any third party. Once Clearwater begins selling the Generation to a third party, the 2nd Demand Block would no longer be applicable and all kVA above 3,000 would be billed at the 1St Demand Block rate.

The Parties propose that the change in revenues and expenses associated with the new ESA, as compared with the revenues and expenses included in the last rate case for Clearwater, be tracked through the PCA at 100%. Avista will file a revised Schedule 25P tariff substantially similar to Exhibit B included in the ESA filing.

STAFF COMMENTS AND RECOMMENDATION

Staff reviewed the joint Application, including Exhibit A (Large Generator Interconnection Agreement) and Exhibit B (Tariff Schedule 25P). The new agreement allows Clearwater to generate into its own load. This will offset Clearwater's retail rate which has more value than selling its generation at a lower PURPA rate. Staff expects that approximately \$1.9 million per year in lost net revenue will be deferred into the Avista PCA due to the contract

change. This deferral will continue until the effects of the proposed ESA are captured in base rates in a future general rate case.

Base rates are expected to change the next time they are established due to the changes in the cost of serving Clearwater and the change in the Clearwater load. The cost of service study will redistribute costs to the various customer classes, including Clearwater. Staff included Attachment A to its comments illustrating an estimate of the redistribution.

Attachment A has three parts. The top third shows cost of service results under the current ESA. The middle third shows expected cost of service results under the proposed ESA with Clearwater generating into its own load. The bottom third shows the difference between the two cost-of-service studies. The bottom third of Attachment A depicts an increase to the Idaho jurisdiction of approximately \$1.9 million, approximately \$1.4 million being assigned to Clearwater Schedule 25P. Even with this change, current Clearwater rates remain above cost of service. All schedules except Schedules 11 and 21 move closer to cost of service as a result of the proposed contract change.

Staff outlined three significant changes to the Parties' existing ESA. First, Clearwater will now generate into its own load instead of selling power to Avista under a PURPA contract. Second, the proposed ESA creates a second block demand rate of \$2.00/kVA for monthly demands above 55,000 kVA. Under the existing ESA, demands above 55,000 kVA are included in the first block demand and billed at \$4.50/kVA. Avista expects infrequent demand use above 55,000 kVA. Avista also believes that the negotiated \$2.00/kVA rate will cover its costs. Third, Section 8 of the proposed ESA allows Clearwater to bank generation that exceeds its monthly load and use it to offset intra-year loads for billing purposes. Again, Avista believes that this circumstance, Clearwater banking excess generation, is unlikely to occur.

Staff believes that the proposed ESA equitably represents the varied interests of Clearwater, Avista and Avista's remaining customers. Therefore, Staff recommended approval of the proposed ESA, including the proposed accounting treatment contained in the Application. Staff also recommended Avista file a revised Schedule 25P with an effective date of July 1, 2013, as proposed in the Application.

COMMISSION FINDINGS AND DECISION

The Commission has reviewed and considered the filings in this case, AVU-E-13-02, including the Avista-Clearwater Joint ESA Application, including attachments, and Staff

comments. The Commission finds that the terms and conditions of the Parties' new ESA are fair, just and reasonable. Further, the Commission is satisfied that the Parties' mutual agreement will not present an undue harm to the interests of Avista's remaining customers. Therefore, the Parties' Joint Application for approval of their ESA is approved, effective July 1, 2013.

The new ESA preserves the Parties' longstanding contractual relationship under substantially similar terms and conditions. However, in the new ESA Clearwater agrees to transition from selling its on-site generation to Avista under a PURPA contract to utilizing its electricity output to offset its own load requirements. The Commission finds that this decision is reasonable and appropriate under current market conditions. We note that Clearwater has a long history of using "its generation to reduce its load requirement while purchasing the remainder from Avista." Order No. 29418 at 10.

As in the Parties' previous agreement, the Company proposes to defer 100% of the power purchase costs for recovery into its PCA account – until such time as the contract is included in the Company's base rates. The Commission finds that the deferral of power purchase costs into the Company's PCA account is an appropriate treatment of such costs and consistent with our prior Orders. *See id.* Therefore, Avista is authorized to book the costs associated with the Parties' new ESA into its PCA deferral account until such time as the costs of the new ESA are included in the Company's base rates.

ORDER

IT IS HEREBY ORDERED and the Commission does hereby approve the Joint Application for approval of the Electric Service Agreement between Avista Corporation and Clearwater Paper Corporation.

IT IS FURTHER ORDERED that Avista is authorized to defer and book the costs associated with the Parties' new Electric Service Agreement into its Power Cost Adjustment deferral account until such time as the costs of the new Agreement are included in the Company's base rates.

IT IS FURTHER ORDERED that Avista shall file a Schedule 25P tariff schedule in conformance with the Commission's findings and decision in this Order.

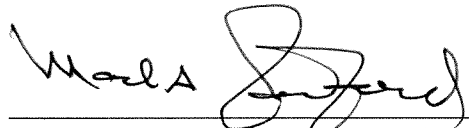
THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7)

days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of June 2013.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Barbara Barrows
Assistant Commission Secretary

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