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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR APPROVAL OF ITS ELECTRIC SERVICE AGREEMENT WITH CLEARWATER PAPER CORPORATION.

CASE NO. AVU-E-13-02

COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Neil Price, Deputy Attorney General, in response to the Notice of Application, Notice of Modified Procedure, and Order No. 32622 issued on April 30, 2013, submits the following comments.

BACKGROUND

On April 15, 2013, Avista Corporation ("Avista" or "Company") and Clearwater Paper Corporation ("Clearwater"), collectively referred to as the "Parties," filed a Joint Petition 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 July 1, 2003, and is set to expire on June 30, 2013.

Clearwater is a corporation operating, among other things, 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").

The Parties' new ESA is for 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 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;

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, should be tracked through the PCA at 100%.

The Parties request that the Commission direct Avista to file a revised Schedule 25P tariff substantially similar to Exhibit B included in the ESA filing.

STAFF REVIEW

Staff has reviewed the joint Application including Exhibit A (Large Generator Interconnection Agreement) and Exhibit B (Tariff Schedule 25P) and discussed these with Avista. The new agreement represents the economic realities of today. As the existing agreement expires at the end of June, Clearwater will generate into its own load because offsetting its retail rate has more value to Clearwater than selling its generation at a lower PURPA rate. This has both PCA and base rate implications to Idaho ratepayers. The PCA is expected to defer approximately $1.9 million per year in lost net revenue due to the contract change. This would 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 Paper. Attachment A to these comments shows 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 shows an increase to the Idaho jurisdiction of approximately $1.9 million with 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.

In Staff's opinion there are three significant differences between the existing ESA and the proposed ESA. First, Clearwater will 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. Based on Avista's experience, it 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. Based on years of operating experience with Clearwater, Avista believes this circumstance to be unlikely.

As Clearwater exercises its options to minimize its costs, these kinds of changes are unavoidable. Clearwater has every right to generate into its own load. Staff believes that the new ESA fairly represents the interests of Avista, Clearwater and Avista's other customers. Staff believes that the ESA should be approved.

STAFF RECOMMENDATION

Staff recommends Commission approval of the ESA, and the proposed accounting treatment, as filed by Avista and Clearwater. Staff also recommends that Avista file a revised Schedule 25P with an effective date of July 1, 2013 as proposed in the Application.

Respectfully submitted this 14th day of June 2013.

Neil Price
Deputy Attorney General

Technical Staff: Keith Hessing

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Key Cost of Service Indications Regarding Clearwater Paper Scenarios

AVU-E-12-08 As Filed (Cost at Present Rates)

$000s	Sch 1	Sch 11/12	Sch 21/22	Sch 25	Sch 25P	Sch 31/32	Lighting	Total Idaho
Revenue	99,497	32,432	51,400	16,036	41,091	4,859	3,405	248,720
Cost	106,349	28,933	49,178	16,155	39,410	4,949	3,747	248,720
Target Change	6,852	(3,499)	(2,222)	119	(1,681)	90	342	(0)
Revenue to Cost Ratio	0.94	1.12	1.05	0.99	1.04	0.98	0.91	1.00
Rate Base	284,777	78,205	136,041	35,478	77,293	14,817	12,418	639,030
Net Income	16,357	8,026	11,423	2,521	6,765	1,026	685	46,803
ROR	5.74%	10.26%	8.40%	7.10%	8.75%	6.92%	5.51%	7.32%
Return Ratio	0.78	1.40	1.15	0.97	1.20	0.95	0.75	1.00

Clearwater Scenario — Customer Generates into their own load

$000s	Sch 1	Sch 11/12	Sch 21/22	Sch 25	Sch 25P	Sch 31/32	Lighting	Total Idaho
Revenue	99,497	32,432	51,400	16,036	20,048	4,859	3,405	227,677
Cost (At Current Return As Filed)	106,494	29,009	49,359	16,238	19,718	4,970	3,755	229,543
Target Change	6,997	(3,423)	(2,041)	202	(330)	111	350	1,866
Revenue to Cost Ratio	0.93	1.12	1.04	0.99	1.02	0.98	0.91	0.99
Rate Base	301,244	82,610	144,680	39,164	43,302	15,480	12,551	639,030
Net Income	17,479	8,307	11,947	2,738	3,391	1,062	690	45,614
ROR	5.80%	10.06%	8.26%	6.99%	7.83%	6.86%	5.50%	7.14%
Return Ratio	0.81	1.41	1.16	0.98	1.10	0.96	0.77	1.00

Change — Self Gen - As Filed

$000s	Sch 1	Sch 11/12	Sch 21/22	Sch 25	Sch 25P	Sch 31/32	Lighting	Total Idaho
Revenue	-	-	-	-	(21,043)	-	-	(21,043)
Cost	145	76	182	83	(19,691)	21	7	(19,177)
Target Change	145	76	182	83	1,352	21	7	1,866
Revenue to Cost Ratio	0.00	0.00	0.00	0.01	0.03	0.00	0.00	0.01
Rate Base	16,467	4,404	8,639	3,685	(33,990)	663	132	-
Net Income	1,122	281	524	218	(3,375)	36	5	(1,189)
ROR	0.06%	-0.21%	-0.14%	-0.11%	-0.92%	-0.07%	-0.02%	-0.19%
Return Ratio	0.03	0.01	0.01	0.01	(0.10)	0.02	0.02	-

ATTACHMENT A
CASE NO. AVU-E-13-02
K. HESSING, STAFF
06/14/13

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF JUNE 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-13-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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