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May 22, 2014

**VIA Electronic Filing**

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
P O Box 83720  
Boise, ID 83720-0074

Re: Avista Case No. AVU-E-14-03

Dear Ms. Jewell:

Enclosed for filing with the Commission is Avista Corporation, doing business as Avista Utilities reply comments, in the above captioned Case "Cogeneration and Small Power Production Schedule." An original and seven (7) copies are being provided via overnight mail to the Commission as well as copies to the service list.

Please direct any questions on this matter to Clint Kalich, Manager of Resource Planning at (509) 495-4532 or Michael Andrea, Senior Counsel at (509) 495-2564.

Sincerely,

*/s/Linda Gervais/*

Linda Gervais  
Manager, Regulatory Policy  
Avista Utilities  
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Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF AVISTA CORPORATION FOR ) CASE NO. AVU-E-14-03  
APPROVAL OF PROPOSED REVISIONS TO )  
SCHEDULE 62. ) REPLY COMMENTS OF AVISTA  
 ) CORPORATION  
 )  
\_\_\_\_\_ )

Avista Corporation (“Avista”) respectfully submits the following reply comments in response to comments submitted on Avista’s proposed revisions to its tariff Schedule 62, Cogeneration and Small Power Production. As discussed herein, Avista agrees with many of the comments that were submitted and Avista has revised its proposed Schedule 62 to reflect those comments. A redline of Avista’s revised proposed Schedule 62 is attached hereto as Attachment A.<sup>1</sup>

**I. Reply Comments**

On March 28, 2014, Avista filed an application proposing revisions to its Schedule 62 (“Application”). The proposed Schedule 62 provides procedures to be used by Avista and Qualifying Facility (“QF”) developers in negotiating and entering into power purchase agreements for the sale of the output of QFs to Avista under the Public Utility Regulatory Policy Act of 1978 (“PURPA”).

<sup>1</sup> Attachment A is provided for illustrative purposes only to show the changes that Avista proposes to make to its original proposed Schedule 62.

Avista has reviewed the comments submitted in this proceeding in response to its Application. Based on those comments, Avista has determined that certain revisions to its proposed Schedule 62 are appropriate.

Avista agrees with comments that the Short-Term Rate should be available to all QFs, not just those below the Eligibility Cap.<sup>2</sup> Avista also proposes to expressly include in its Schedule 62 the IRP-Based Rate option, which is calculated based on the IRP Methodology tailored to the individual characteristics of the proposed QF. The IRP-Based Rate option is available to all Qualifying Facilities exceeding the Eligibility Cap.

Avista proposes to revise its contracting procedures in response to certain comments. Specifically, in response to concerns regarding the phrase “but not limited to” in section 1E of the proposed Schedule 62, Avista proposes to delete that phrase in section 1E. Avista is also proposing to delete the phrase “but not limited to” in Section 1A. Avista also proposes to revise the time for Customers to execute and return the final power purchase agreement to Avista in section 1L from five business days to ten business days. Avista does not agree with comments seeking to eliminate the requirement for certain small QFs to provide an 8,760 hour generation output profile. This requirement is not unduly burdensome and Avista needs this information for planning and pricing purposes.

Commentors also expressed concern regarding the requirement to show that interconnection studies have been completed and that the QF interconnection is to occur on or prior to the requested first delivery date to obtain a draft power purchase agreement. Avista proposes to delete this requirement from section 1E. Avista revised section 1K to include a

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<sup>2</sup> Sagebrush also urges Avista to provide a standard short-term “as available” tariff contract to facilitate execution of market-based pricing sales. Sagebrush’s request for a short-term “as available” tariff is beyond the scope of this proceeding.

requirement that the Customer provide evidence that relevant interconnection studies are complete and that interconnection is to occur on or prior to the requested delivery date before Avista is required to prepare a final, executable version of the power purchase agreement.

Commentors took issue with section 1D of Avista's proposed Schedule 62, which provided that the terms and conditions of a power purchase agreement, including pricing, would not be final and binding unless or until: (1) the power purchase agreement is fully executed by both parties and approved by the Commission, or (2) the prices are approved by the Commission and the Commission has issued a final and non-appealable determination that:

- a "legally enforceable obligation" has arisen and, but for the conduct of the Company, there would be a contract, and
- b. the Qualifying Facility can deliver its electrical output within 180 days of such determination.

One commentor asserts that the underlined "and" above should, at a minimum, be replaced with "or". However, there can be no binding terms and conditions, including binding pricing, solely because there is a determination that a QF can deliver its electrical output within a certain period of time. If Avista were to revise its proposed Schedule 62 to replace "and" with "or", it is at least theoretically possible to have a binding price with a QF that has not even requested a power purchase agreement from Avista if the Commission issues a determination that the QF can deliver its electrical output within the stated time. Further, the QF contracting procedures being proposed in this filing are intended to all but eliminate the necessity of exercising this provision. Where both parties bargain in good faith and are responsive within the timelines proposed in the revised tariff, the QF should have a defined schedule to obtain pricing that can be used in their project plans.

Although Avista disagrees with the suggestion to revise “and” to “or” as discussed above, Avista is amendable to revising section 1D in an attempt to address any concerns that the ability to deliver electrical output within 180 days may be too short of a time period. This said, Avista believes a balance is necessary between providing a QF long-term “put option” with enough optionality to complete most or all of the tasks associated with developing a new resource, and contract pricing becoming stale to the disadvantage of utility customers. The legally-enforceable obligation instead should provide QF developers who both have negotiated in good faith with the utility and taken significant financial risks and are prepared to deliver power by having already moving their projects forward through the steps of preliminary engineering, design and major asset procurement, the certainty necessary to complete their projects. The creation of a legally enforceable obligation, absent these efforts, has the potential to the disadvantage customers of the utility. In an attempt to balance the competing interests, Avista is willing to support revising the 180 days in section D(ii)(b) to 365 days, a period of time that would cover, using analyses provided by Staff in their comments, half of the historical QF developer timelines.

Finally, some comments asserted that Avista modify its notification from ten to five days when required information is deemed insufficient in sections 1B) and 1F). Five business days is not sufficient review time given the large volume of data the utility is required to review before making a determination of compliance with Schedule 62. This is especially true if Avista’s staff responsible for processing QF contracts is unavailable, either because such staff is out of the office on other business, on vacation, ill, or otherwise unavailable. Avista believes the ten-day review period that it proposed is reasonable.

Avista appreciates the comments submitted in this proceeding and, as discussed herein, Avista proposes to revise its Schedule 62 to reflect some of those comments. A redline of

Avista's proposed Schedule 62 reflecting the revisions that Avista proposes to make in response to comments submitted in this proceeding is attached hereto as Attachment A.

**II. Conclusion**

Avista appreciates the opportunity to submit these reply comments. Avista respectfully requests that the Commission approve its revised proposed Schedule 62.

DATED this 22nd day of May 2014.



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Michael G. Andrea  
Attorney for Avista Corporation

CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of May, 2014, true and correct copies of the foregoing Reply Comments of Avista Corporation were served by emailing and mailing a copy thereof, postage prepaid, to the following.

Jean Jewell  
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/s/ Michael G. Andrea  
Michael G. Andrea

AVISTA CORPORATION  
dba Avista Utilities

SCHEDULE 62  
COGENERATION AND SMALL POWER PRODUCTION SCHEDULE - IDAHO

AVAILABLE:

In all electric territory served by the Company in the State of Idaho.

APPLICABLE:

To Qualifying Facilities that intend to interconnect to the Company's electrical system at an interconnection point within the State of Idaho or that intend to deliver the output to the Company at a point of delivery on the Company's electrical system within the State of Idaho.

~~To be eligible for the rates provided under this tariff, the Facility must be a Qualifying Facility with a maximum generating capability equal to or less than the Eligibility Cap.~~

A Customer selling the output of any Qualifying Facility (including both Qualifying facilities with a maximum generating capability equal to or less than the Eligibility Cap and Qualifying Facilities with a maximum generating capability greater than the Eligibility Cap) will be required to enter into a written agreement with the Company in accordance with the contracting procedures set forth in this tariff. Any such agreement is subject to the approval of the Idaho Public Utilities Commission.

DEFINITIONS:

"Customer" as used herein means any individual, partnership, corporation, association, governmental agency, political subdivision, municipality or other entity.

"Cogeneration Facility" means equipment used to produce electric energy and forms of useful thermal energy (such as heat or steam), used for industrial, commercial, heating, or cooling purposes, through the sequential use of energy.

"Daily Shape Adjustment" means an adjustment to rates based on a difference between on-peak (6 am to 10pm) rates and off-peak (10 pm to 6 am) rates of \$5 per MWh. The Daily Shape Adjustment increases the on-peak rate and decreases the off-peak rate such that the difference between the on-peak and off-peak rate is \$5/MWh and the average rate weighted by the number of on-peak and off-peak hours is equal to the unadjusted avoided cost.

"Eligibility Cap" means for all Qualifying Facilities except wind and solar Qualifying Facilities, ten (10) average megawatts in any given month. For wind and solar Qualifying Facilities, "Eligibility Cap" means one-hundred (100) kilowatts nameplate capacity.

"Facility" means the source of electricity owned by the Customer that is located on the Customer's side of the PCC, and all facilities ancillary and appurtenant thereto, including interconnection equipment, which the Customer requests to interconnect to the Company's distribution system.

"In-Service Date" means the date on which the Facility and System Modifications (if applicable) are complete and ready for service, even if the Facility is not placed in service on or by that date.

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By

Kelly O. Norwood VP, State & Federal Regulation

AVISTA CORPORATION  
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SCHEDULE 62 – continued

“Integration Charges” means the integration charge applicable to wind generation approved by the Idaho Public Utilities Commission in Order No. 30500, or as superseded “Interconnection Service Agreement” is an agreement for interconnection service, between the Customer and the Company, or the Customer and a 3<sup>rd</sup> party transmission provider. The agreement also includes any amendments or supplements thereto entered into by the Customer and the Company.

“Market Rate” shall be 85 percent (85%) of the PowerDex hourly Mid-Columbia (“Mid-C”) index.

“Point Of Common Coupling” (or PCC) means the point where the Customer’s local electric power system connects to the Company’s distribution system, such as the electric power revenue meter or at the location of the equipment designated to interrupt, separate or disconnect the connection between the Customer and the Company.

“Qualifying Facility” shall mean a cogeneration Facility or a Small Power Production Facility that is a “Qualifying Facility” as that term is defined in the Federal Energy Regulatory Commission’s regulations, 18 C.F.R. § 292.101(b)(1) (2010), as may be amended or superseded.

“Seasonal Factors” means a seasonal weighting of 0.84 for the period March through June, and 1.08 for the period July through February.

“Small Power Production Facility” means the equipment used to produce output including electric energy solely by the use of biomass, waste, solar power, wind, water or any other renewable resource.

**RATES:**

The Company agrees to pay the following rates for the purchase of output from Facilities for which this tariff applies and that is delivered to the Company’s system. These rates are adjusted periodically and are on file with the Idaho Public Utilities Commission.

- (1) Levelized Fueled Rates – These rates shall apply to Qualifying Facility projects at or below the Eligibility Cap when the Customer chooses to supply output including energy and capacity under Levelized Avoided Cost Rates for Fueled Facilities. The rates shall apply to natural gas fueled Facilities and shall depend upon the on-line operation date and term of the agreement and shall be fixed for the term. The adjustable component rate shall be changed periodically subject to Idaho Public Utilities Commission orders. Both the fixed and adjustable rate components are subject to Seasonal Factors, a Daily Shape Adjustment, and Integration Charges. The resultant rate shall be applied to the Facility output for all kilowatt-hours up to the Eligibility Cap in any given month.

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SCHEDULE 62 - continued

- (2) Non-Levelized Fueled Rates – These rates shall apply to Qualifying Facility projects at or below the Eligibility Cap when the Customer chooses to supply output including energy and capacity under Non-Levelized Avoided Cost Rates for Fueled Facilities. The fixed component rate shall be fixed for the term of the agreement. The adjustable component rate shall be changed periodically subject to Idaho Public Utilities Commission orders. Both the fixed and adjustable rate components are subject to Seasonal Factors, a Daily Shape Adjustment, and Integration Charges. The resultant rate shall be applied to the Facility output for all kilowatt-hours up to the Eligibility Cap in any given month.
- ~~(3) Short Term Rate – The Short Term Rate shall be applicable when the Customer chooses to supply output including energy and capacity at market-based rates under contract. The Short Term Rate shall be the lower of the applicable Non-Levelized Non-Fueled Rate or the Market Rate. The rate is subject to a Seasonal Factor, a Daily Shape Adjustment, and Integration Charges. The resultant rate shall be applied to the Facility output for all kilowatt-hours up to the Eligibility Cap in any given month.~~
- (4) Levelized Non-Fueled Rates - These rates shall apply to Qualifying Facility projects at or below the Eligibility Cap when the Customer chooses to supply output including energy and capacity under Levelized Avoided Cost Rates for Non-Fueled Facilities. These rates shall apply to Facilities that do not use natural gas as their primary fuel. The rates shall depend upon the on-line operation date and term of the agreement and shall be fixed for the term. The rate components are subject to Seasonal Factors, a Daily Shape Adjustment, and Integration Charges. The resultant rate shall be applied to the Facility output for all kilowatt-hours up to the Eligibility Cap in any given month.
- ~~(5)~~ 4) Non-Levelized Non-Fueled Rates - These rates shall apply to Qualifying Facility projects at or below the Eligibility Cap when the Customer chooses to supply output including energy and capacity under a contract based on Non-Levelized Avoided Cost Rates for Non-Fueled Facilities. These rates shall apply to Facilities that do not use natural gas as their primary fuel, and shall be fixed for the term. The rates are subject to a Seasonal Factor, a Daily Shape Adjustment, and Integration Charges. The resultant rate shall be applied to the Facility output, for all kilowatt-hours up to the Eligibility Cap in any given month.
- (5) Short-Term Rate - The Short-Term Rate shall be applicable to any Qualifying Facility when the Customer chooses to supply output including energy and capacity at market-based rates under contract. The Short-Term Rate shall be the lower of the

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applicable Non-Levelized Non-Fueled Rate or the Market Rate. The rate is subject to a Seasonal Factor, a Daily Shape Adjustment, and Integration Charges. The resultant rate shall be applied to all kilowatt-hours of generation up to the Eligibility Cap for Qualifying Facilities below the Eligibility Cap, and to all hourly Facility output up to contracted nameplate capacity for Qualifying Facility exceeding the Eligibility Cap.

(6) IRP-Based Rate - The IRP-Based Rate option is available to all Qualifying Facilities exceeding the Eligibility Cap. It shall be calculated based on the IRP Methodology and tailored to the individual characteristics of the proposed Qualifying Facility.

**CONTRACTING PROCEDURES:**

The Company agrees to adhere to the following contract procedures for the purchase of output from Customers who own Qualifying Facilities for which this tariff applies and that is delivered to the Company's system. These contracting procedures are adjusted periodically and are on file with the Idaho Public Utilities Commission.

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SCHEDULE 62 – continued

(1) Procedures

A. To obtain an indicative pricing proposal for a proposed Qualifying Facility, the Customer shall provide the Company information that is reasonably required to develop such a proposal. General information regarding a Qualifying Facility shall include, ~~but not be limited to:~~

- i) Qualifying Facility owner name, organizational structure and chart, and contact information;
- ii) generation and other related technology applicable to the Qualifying Facility;
- iii) design capacity, station service requirements, and the net amount of power, all in kilowatts (kW), to be delivered to the Company's electric system by the Qualifying Facility;
- iv) schedule of estimated Qualifying Facility electric output, in an 8,760-hour electronic spreadsheet format;
- v) ability, if any, of Qualifying Facility to respond to dispatch orders from the Company;
- vi) map of Qualifying Facility location, electrical interconnection point, and point of delivery;
- vii) anticipated commencement date for delivery of electric output;
- viii) list of acquired and outstanding Qualifying Facility permits, including a description of the status and timeline for acquisition of any outstanding permits;
- ix) demonstration of ability to obtain Qualifying Facility status;
- x) fuel type(s) and source(s);
- xi) plans to obtain, or actual, fuel and transportation agreements, if applicable;
- xii) where Qualifying Facility is or will be interconnected to an electrical system besides the Company's, plans to obtain, or actual, electricity transmission agreements with the interconnected system;
- xiii) interconnection agreement status; and
- xiv) proposed contracting term and pricing provisions for the sale of electric output to the Company (i.e., fixed, escalating, indexed).

B. Where the Company determines that the Customer has not provided sufficient information as required by Section (1)A, the Company shall, within ten (10) business days, notify the Customer in writing of any deficiencies.

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SCHEDULE 62 – continued

- C. Following satisfactory receipt of all information required in Section (1)A, the Company shall, within twenty ~~five~~ (250) business days, provide the Customer with an indicative pricing proposal containing terms and conditions tailored to the individual characteristics of the proposed Qualifying Facility; provided, however, that for Qualifying Facilities eligible for Published Rates pursuant to the Idaho Public Utilities Commission's eligibility requirements, the Company will provide such indicative pricing proposal within ten (10) business days.
- D. The indicative pricing proposal provided to the Customer pursuant to Section (1)C will not be final or binding on either party. Prices and other terms and conditions will become final and binding on the parties under only two conditions:
- i) The prices and other terms contained in a power purchase agreement shall become final and binding upon full execution of such power purchase agreement by both parties and approval by the Idaho Public Utilities Commission, or
  - ii) The applicable prices that would apply at the time a complaint is filed by a Qualifying Facility with the Idaho Public Utilities Commission shall be final and binding upon approval of such prices by the Idaho Public Utilities Commission and a final non-appealable determination by the Idaho Public Utilities Commission that:
    - a. a "legally enforceable obligation" has arisen and, but for the conduct of the Company, there would be a contract, and
    - b. the Qualifying Facility can deliver its electrical output within ~~180~~ 365 days of such determination.
- E. If the Customer desires to proceed with contracting its Qualifying Facility with the Company after reviewing the indicative pricing proposal, it shall request in writing that the Company prepare a draft power purchase agreement to serve as the basis for negotiations between the parties. In connection with such request, the Customer shall provide the Company with any additional Qualifying Facility information that the Company reasonably determines necessary for the preparation of a draft power purchase agreement, which ~~may~~ shall include, ~~but shall not be limited to:~~
- i) updated information of the categories described in Section (1)A;
  - ii) evidence of site control for the entire contracting term;

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SCHEDULE 62 – continued

- iii) anticipated timelines for completion of key Qualifying Facility milestones, to include:
- a. licenses, permits, and other necessary approvals;
  - b. funding;
  - c. Qualifying Facility engineering and drawings;
  - d. significant equipment purchases;
  - e. construction agreement(s);
  - f. interconnection agreement(s); and
  - g. signing of 3<sup>rd</sup>-party transmission agreements, where applicable

~~iv) evidence that interconnection studies have been completed, and a demonstration that Qualifying Facility interconnection is to occur on or prior to the requested first delivery date; and,~~

iv) additional information as explained in the Company's indicative pricing proposal.

- F. If the Company determines that the Customer has not provided sufficient information as required by Section (1)E, the Company shall, within ten (10) business days, notify the Customer in writing of any deficiency.
- G. Following satisfactory receipt of all information required in Section (1)E, the Company shall, within fifteen (15) business days, provide the Customer with a draft power purchase agreement containing a comprehensive set of proposed terms and conditions. The draft shall serve as the basis for subsequent negotiations between the parties and, unless clearly indicated, shall not be construed as a binding proposal by the Company.
- H. Within ninety (90) calendar days after its receipt of the draft power purchase agreement from the Company pursuant to Section (1)G, the Customer shall review the draft power purchase agreement and shall: a) notify the Company in writing that it accepts the terms and conditions of the draft power purchase agreement and is ready to execute a contract with same or similar terms and conditions as the draft contract; or b) prepare an initial set of written comments and proposals based on the draft, and provide them to the Company. The Company shall not be obligated to commence negotiations with a Customer or draft a final contract unless or until the Company has timely received an initial set of written comments and proposals from the Customer, or notice from the Customer that it has no such comments or proposals, in accordance with this Section (1)H.

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## SCHEDULE 62 – continued

- I. After Customer has met the provisions of Section (1)H above, Customer shall contact the Company to schedule contract negotiations at such times and places as are mutually agreeable to the parties.
- J. In connection with any contract negotiations between the Company and the Customer, the Company:
- i) shall not unreasonably delay negotiations and shall respond in good faith to any additions, deletions or modifications to the draft power purchase agreement that are proposed by the Customer;
  - ii) may request to visit the site of the proposed Qualifying Facility if such a visit has not previously occurred;
  - iii) shall update its pricing proposals at appropriate intervals to accommodate any changes to the Company's avoided-cost calculations, the proposed Qualifying Facility or proposed terms of the draft power purchase agreement;
  - iv) may request any additional information from the Customer necessary to finalize the terms of the power purchase agreement and to satisfy the Company's due diligence with respect to the Qualifying Facility.
- K. When both parties are in full agreement as to all terms and conditions of the draft power purchase agreement, including the price paid for delivered power, and the Customer provides evidence that all relevant interconnection studies are complete and that interconnection is to occur on or prior to the requested first delivery date, the Company shall prepare and forward to the Customer, within ten (10) business days, a final, executable version of the power purchase agreement.
- L. The Customer shall, within ~~five (5)~~ ten (10) business days, execute and return the final power purchase agreement to the Company.
- M. Where the Customer timely executes and returns the final power purchase agreement to the Company in accordance with Section (1)L, the Company will, within ten (10) business days of its receipt of the power purchase agreement executed by the Customer, execute such power purchase agreement and submit it to the Idaho Public Utilities Commission for approval.

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## SCHEDULE 62 – continued

N. Failure of the Customer to meet any timelines set forth in this Section relieves the Company of any obligation under this tariff until such time as the Customer resubmits its Qualifying Facility and the procedures begin anew. If the Customer does not execute the final power purchase agreement per Section (1)L, such final power purchase agreement shall be deemed withdrawn and the Company shall have no further obligation to the Customer under this tariff unless or until such time the Customer resubmits the Qualifying Facility to the Company in accordance with this Schedule.

## (2) Interconnection and Transmission Agreements

- A. The Company's obligation to purchase Qualifying Facility electrical output from the Customer will be conditioned on the consummation of an interconnection agreement. Where the Qualifying Facility will not be physically located within the Company's electrical system, the Customer will need to consummate an interconnection agreement with the 3<sup>rd</sup>-party electrical system.
- B. Where the Qualifying Facility will be interconnected to a 3<sup>rd</sup>-party electrical system and is requesting either Published Rates, or rates based on firm delivery of its electrical output, the Company's obligation to purchase such electrical output will be conditioned on the Customer obtaining a firm transmission agreement or agreements to deliver all electrical output to the Company's system. Such agreement(s) shall have minimum terms equal to the lesser of: a) the term of the agreement being requested by the Qualifying Facility in Section (1)Axiv, or b) the minimum term required by the 3<sup>rd</sup>-party transmission entity to ensure firm roll over transmission rights.

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