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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW 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. 33028 on April 24, 2014, in Case No. AVU-E-14-03, submits the following comments.

BACKGROUND

On March 28, 2014, Avista Corporation filed an Application proposing revisions to its tariff Schedule 62, Cogeneration and Small Power Production. The Application was submitted in response to workshops held between parties to the GNR-E-11-03 case. Avista maintains that its proposed tariff revisions provide procedures to be used by Avista and Qualifying Facility ("QF") developers in negotiating and entering into power purchase agreements for the sale of the electrical output of QFs to Avista under PURPA at avoided cost rates.

Avista asserts that the proposed procedures generally (1) detail the information QF developers are to provide to the Company; (2) provide timelines for both QF developers and

Avista to following the process for negotiating and entering into a power purchase agreement; and (3) provide a dispute resolution process in the event the parties are unable to agree on one or more terms of a power purchase agreement.

In addition to proposing procedures for negotiating and entering into PURPA contracts, Avista proposes to change the definition of "Market Energy Rate" to reference the PowerDex hourly Mid-Columbia ("Mid-C") index instead of the Intercontinental Exchange ("ICE") non-firm energy index.

STAFF ANALYSIS

Staff and Avista both actively participated in workshops conducted as part of the GNR-E-11-03 case. The purpose of the workshops in that phase of the case was to attempt to reach consensus between QF developers, the utilities, and Staff on procedures to be used by utilities and QF developers in negotiating and entering into PURPA power purchase agreements. Although the workshops were productive, the parties failed to reach full consensus on all issues. Avista's Application accurately reflects the outcome of the workshops on all issues where consensus could be reached. Staff's comments will focus primarily on those outstanding issues where consensus could not be reached.

Conditions for Indicative Pricing to be Binding on the Parties

Section D(ii)b of the "Contracting Procedures" section of Schedule 62 requires that as one condition for making indicative pricing binding on the parties, in the event the parties do not agree to execute a contract, the QF must file a meritorious complaint with the Commission alleging a "legally enforceable obligation" has arisen and be able to deliver its electrical output within 180 days of such determination. This issue was the subject of much debate during the workshops, and workshop participants were unable to agree. Most parties agreed that it was reasonable to place a limit on the length of time a utility's indicative price offer should stand. The disagreement was over how long that time period should be.

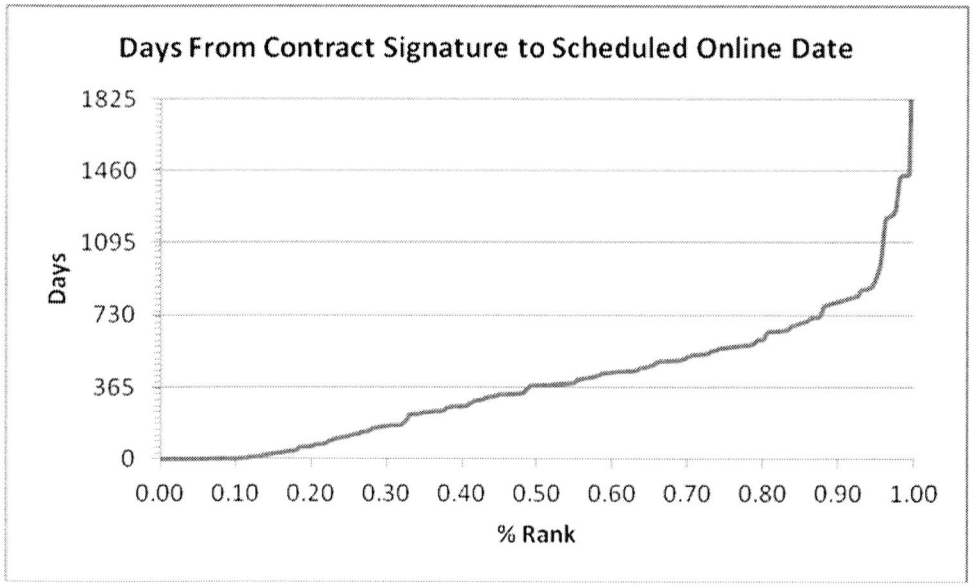
Generally, two contrasting views have been expressed on this issue. One view is that indicative prices developed by the utility have a reasonable "shelf life" and that if too much time elapses before a QF commits to signing a contract, the prices become stale and are no longer an accurate representation of the real value of power. Utilities contend that avoided costs can

change considerably, sometimes within a relatively short period of time; therefore, the utilities should not be required to preserve an offer of specific rates indefinitely.

The counter argument expressed by the QFs is that they need price assurance for a reasonable period of time following contract execution in order to secure financing, complete final project designs, procure equipment, complete construction, and bring the plant on line. The QFs maintain that securing a power sales agreement is normally one of the first steps in the development process rather than one of the last. Without a signed power sales contract, they argue, they are unable to even begin the financing and construction phases of the project. They also argue that utilities themselves typically seek some type of price or cost recovery assurance in advance of committing to a major project, and that utility projects require a reasonable length of time for financing and construction. Therefore, they contend, QFs should be entitled to similar treatment as utilities.

Staff recognizes merit in both arguments. Consequently, Staff believes it is necessary to try to balance both views. Staff believes a price offer must be maintained for a reasonable period to enable projects to obtain financing and complete construction, but that the price offer not be required to be maintained for any longer than necessary such that the prices become stale.

In order to determine what a reasonable time period might be, Staff reviewed all past Idaho PURPA contracts. All PURPA contracts contain both a signature date and a "scheduled operation date." The scheduled operation date is intended to represent the date on which the project expects to achieve commercial operation and begin delivering energy to the utility on an ongoing basis. The time difference between when the contract is signed and the scheduled operation date presumably represents the length of time the project developer believes is necessary to perform all the tasks required to bring a project online, including obtaining financing and completing construction. A summary of Staff's analysis is depicted below.



The analysis shows that approximately 50 percent of projects specify an online date within 365 days (one year) of contract signing. Approximately 90 percent specify an online date within two years. Based on this analysis, and trying to balance competing interests of rate staleness vs. rate certainty, Staff proposes 18 months rather than the 180 days proposed by Avista. Staff believes that a 180 day period is unrealistically short, but that an 18 month period is a fair compromise between rate staleness and rate certainty. An 18 month period would have accommodated almost 75 percent of past PURPA contracts.

Definition of Market Rate

In the definitions section of Schedule 62, "Market Rate" is defined as "85 percent (85%) of the weighted average of the Intercontinental Exchange ("ICE") daily On- and Off-Peak Non-Firm energy Index prices for electricity at the Mid-Columbia hub ("Mid-C")." Avista proposes to change this definition because an ICE non-firm index does not exist. Consequently, Avista proposes that the definition of Market Rate be changed to "85 percent (85%) of the PowerDex hourly Mid-Columbia ("Mid-C") index."

The purpose of defining a Market Energy Rate is to establish a price for energy delivered on a non-firm basis, i.e., delivered if and when it is available. Staff is not aware of any price index that currently exists for non-firm energy. On the other hand, there are several indexes currently reported for firm energy. Most are daily indexes that report prices and volumes based on reported transactions.

The PowerDex hourly index, however, reports volume-weighted prices based on actual transactions in the WECC for each hour of every day. Although the PowerDex hourly index is still not a non-firm index, it comes closer than any daily index to fairly pricing energy delivered with very little advance notice. A firm hour ahead transaction obligates the seller to deliver, whereas a non-firm hour ahead transaction only requires delivery if the energy is actually available. While the value of each energy product differs, the difference is likely small.

Because no non-firm index exists, Staff believes there are only two reasonable options. First, a daily index such as ICE or Platts could be used, but it would have to be discounted somehow to reflect the difference in value between firm and non-firm energy. Alternatively, the PowerDex hourly index could be used as a proxy to represent the value of non-firm energy. Staff believes either option is reasonable; therefore, Staff is not opposed to Avista's proposal to use the PowerDex hourly index.

The definition of "Market Rate" was not raised as an issue in the workshops to consider contracting procedures. However, Staff believes that this is an appropriate time to correct the definition because of Avista's Application to make other changes to Schedule 62. Avista currently has no customers being paid for energy deliveries at the Market Rate.

RECOMMENDATIONS

Staff recommends that Section D(ii)b of the "Contracting Procedures" portion of Schedule 62 be changed to require that the Qualifying Facility deliver its electrical output within 18 months in order for indicative pricing to be considered final and binding on either party. Staff also recommends that the definition of "Market Rate" in Schedule 62 be changed to "85 percent (85%) of the PowerDex hourly Mid-Columbia ("Mid-C") index" as proposed by Avista. Staff believes that all other changes to Schedule 62 as proposed by Avista are reasonable and should be approved. Staff recommends an effective date of June 1, 2014.

Respectfully submitted this 15TH day of May 2014.

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Rick Sterling

i:umisc:comments/avue14.1ksrps comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF MAY 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-14-03, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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