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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
AVISTA CORPORATION AND CLEARWATER)	CASE NO. AVU-E-15-06
PAPER CORPORATION FOR APPROVAL OF)	
AMMENDMENT NO. 1 TO THE ELECTRIC)	COMMENTS OF THE
SERVICE AGREEMENT.)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, submits the following comments in response to Order No. 33312 issued on June 3, 2015.

BACKGROUND

On May 13, 2015, Avista Corporation and Clearwater Paper Corporation (collectively the “Parties”) filed a Joint Petition requesting that the Commission approve Amendment No. 1 (“Amendment”) to their Electric Service Agreement (“Agreement”) previously-approved by the Commission in June 2013. See Order No. 32841. In their Amendment dated May 4, 2015, the Parties agreed to make two modifications to their Agreement outlined in greater detail below. The Parties requested that their Petition be processed under Modified Procedure and seek an effective date of August 1, 2015.¹

¹ The Parties had initially asked for an effective date of July 1, 2015, but subsequently agreed to Staff’s request to extend the proposed effective date to August 1, 2015.

Clearwater operates a paper manufacturing facility located in Lewiston, Idaho. As a part of its manufacturing facility, Clearwater operates several generating units that are capable of generating approximately 132 megawatts (MW). Joint Petition at 2. Clearwater maintains that its four generating units are qualifying cogeneration facilities (QFs) under the Public Utility Regulatory Policies Act (PURPA). *Id.* However, the current Agreement with Avista is a non-PURPA contract.

By its terms, the current Agreement terminates on June 30, 2018. Joint Petition at 2. The Agreement provides that Clearwater will utilize its own generating units to serve its load and that all electric power requirements in excess of Clearwater's self-generated power "shall be purchased and received from Avista." *Id.* Avista serves Clearwater's additional power needs under Avista's Schedule 25P rates (Extra Large General Service).

The Amendment

The Parties have agreed upon two modifications to their Agreement. First, while Clearwater uses its own generation to meet some of its energy needs, "it has additional generating capacity that generally is not economical given current energy rates and wholesale market conditions. . . ." Joint Petition at 3. However, at certain times, the Parties contemplate that wholesale energy prices may increase to a level that would make Clearwater's ability to produce additional capacity economical. During such periods, the proposed Amendment provides that Avista may require additional generation "in order to meet its system load requirement, and in lieu of purchasing energy in a higher price wholesale market, would instead purchase from Clearwater such 'Incremental Energy' at a mutually agreed upon price." *Id.* The rates for the purchase of such Incremental Energy are not set out in the Amendment but will be "a mutually agreed upon price" at the time the Parties agree to sell/purchase the Incremental Energy. The Parties maintain that the ability to purchase incremental energy would benefit both Clearwater and Avista by providing a lower cost alternative to making more expensive market purchases.

In the second modification, the Parties have agreed to extend the length of their existing Agreement by three years, to now terminate on June 30, 2021. Instead of continuing the existing Agreement on a year-to-year basis (see Section 2), the Parties maintain that the three-year

extension allows them to plan for both generation by Clearwater and meeting customer demand by Avista.

STAFF REVIEW

Incremental Energy

Staff believes that the proposed Amendment will provide mutual benefits to both Parties. Avista will gain the opportunity to call on Clearwater to provide Incremental Energy at times when it is needed by Avista, and Clearwater will receive additional revenue when it is able to deliver Incremental Energy.

Incremental Energy will be generated when two conditions are met. First, Avista must request Clearwater to generate Incremental Energy. Clearwater cannot generate and be paid for Incremental Energy unless Avista asks for it. Second, Clearwater and Avista must agree to a price for the Incremental Energy.

Staff expects the production of Incremental Energy to occur under only two circumstances, perhaps in combination. First, wholesale market power prices would have to be higher than the cost of Clearwater's additional generation so that Avista's customers and Clearwater both benefit from the deal. This may occur during periods of high customer load due to very cold or very hot weather and/or a combination of high loads and significant plant outages in the Northwest. For example, a sustained Northwest heat wave, in conjunction with the loss of one or more Colstrip generating units, could lead to wholesale power prices that are above the marginal cost of generation for Clearwater. (Response to Staff Request No. 2). Second, extremely low natural gas or biomass fuel prices would probably have to exist. Staff believes this combination of circumstances would rarely occur; consequently, the production of Incremental Energy would likely be minimal and infrequent.

Excess Energy

Under the terms of the existing Agreement, Clearwater is permitted to generate "Excess Energy." Excess Energy is the condition where Clearwater generates more electric power than is required to meet its own obligations. Under the terms of the Agreement, Avista credits Clearwater for any excess kWhs generated during a billing period in a manner consistent with Schedule 63 (net metering). In other words, Excess Energy offsets Clearwater's load. Excess

Energy differs from Incremental Energy in that Incremental Energy can only be produced at Avista's request. Excess Energy, on the other hand, can be produced by Clearwater at its own discretion. The generation of Excess Energy is effectively limited because, while Clearwater can carry over Excess Generation from month to month, it cannot carry over any Excess Energy at the end of the year. Because any Excess Energy balance remaining at the end of the year is eliminated or forfeited to Avista, Clearwater has no incentive to generate more energy than it can use over the course of the year. Avista reports that for Clearwater, there has not been a single hour of Excess Energy between 2005 and present (Response to Staff Request No. 4).

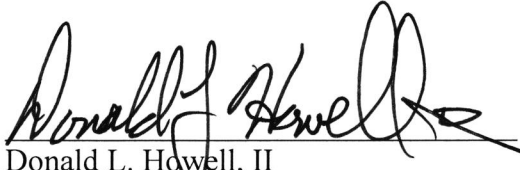
Extension of Contract Term

The second modification to the existing Agreement extends the contract by three years, to now terminate on June 30, 2021. Instead of continuing the existing Agreement on a year-to-year basis (see Section 2), the Parties maintain that the three-year extension allows them to plan for both generation by Clearwater and meeting customer demand by Avista. With the exception of the new provisions relating to Incremental Energy previously discussed, all other rates, terms and conditions under the Agreement will remain the same. Consequently, Staff believes that a three-year extension of the Agreement is reasonable and in the public interest.

STAFF RECOMMENDATION

Staff recommends approval of Amendment No. 1 to the Electric Service Agreement between Avista and Clearwater without change or conditions.

Respectfully submitted this 17th day of July 2015.


Donald L. Howell, II
Deputy Attorney General

Technical Staff: Rick Sterling

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17th DAY OF JULY 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-15-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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