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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL COMPLIANCE FILING OF AVISTA TO UPDATE INPUTS IN THE INCREMENTAL COST INTEGRATED RESOURCE PLAN AVOIDED COST MODEL	**CASE NO. AVU-E-18-11** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Edward Jewell, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 34188 on November 8, 2018, in Case No. AVU-E-18-11, submits the following comments.

OVERVIEW OF COMPANY APPLICATION

On October 25, 2018, Avista Corporation ("Company") filed its annual update to certain components of its Integrated Resource Plan ("IRP") methodology for calculating avoided cost rates for qualifying facilities ("QFs") under the Public Utility Regulatory Policies Act of 1978 ("PURPA"). Specifically, the Company proposes updates to its load forecast, natural gas price forecast, and contract information components of its QF IRP avoided cost methodology.

Under PURPA, state utilities commissions are given broad discretion to determine the avoided cost rates that utilities must pay for the energy or capacity generated by QFs. *See*

Rosebud Enterprises v. Idaho PUC, 128 Idaho 624, 627, 917 P.2d 781, 784 (1996). The Commission has established two methods of calculating avoided cost, depending on the size of the QF project: (1) the surrogate avoided resource ("SAR") methodology, and (2) the IRP methodology. *See* Order No. 32697 at 7-8. The Commission uses the SAR methodology to establish what is commonly referred to as "published" avoided cost rates. *Id.* Published rates are available for wind and solar QFs with a design capacity of up to 100 kW and for QFs of all other resource types with a design capacity of up to 10 aMW. For QFs with a design capacity above the published rate eligibility caps, avoided cost rates are "individually negotiated by the QF and the utility using the [IRP methodology]." *Id.* at 2.

The QF IRP methodology "takes into account many different variables and produces a result based on each individual utility's need for energy. More specifically, the QF IRP method assesses the value of each QF project in terms of its capability to deliver resources in relation to the timing and magnitude of the utility's need of such resources." *Id.* at 17. The Commission has directed electric utilities to submit annual updates to specific variables used in the QF IRP methodology. "We find that, in order to maintain the most accurate and up-to-date reflection of a utility's true avoided cost, utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . In addition, it is appropriate to consider long-term contract commitments because of the potential effect that such commitments have on a utility's load and resource balance." *Id.* at 22.

STAFF REVIEW

Staff has reviewed the Company's Application and recommends approval of the updated load forecast, natural gas price forecast, and long-term contracts to be used in the QF IRP methodology. Staff finds that the difference between this year's forecast and last year's forecast is reasonable for both load and natural gas prices and that the contract information is accurate. Therefore, Staff recommends approval of the updated load forecast, natural gas price forecast, and long-term contracts to be used in the Company's QF IRP methodology with an effective date of October 15, 2018.

Load Forecast

Staff has compared the Company's annual system load forecast in this filing to last year's filing in Case No. AVU-E-17-10 and finds the new forecast is reasonable based on the comparison. First, the economic conditions in Avista's service territory have not changed significantly from the previous year. Second, the comparison shows that the Company's 2018 forecast decreases by 1.67% for energy (aMW) and 2.65% for 1-hour peak (MW). The effect of this decrease in load from last year should not result in any significant change in the QF IRP-based avoided cost rates.

Natural Gas Price Forecast

Staff believes that the Company's natural gas price forecast for Henry Hub and the Stanfield Hub is reasonable for purposes of determining avoided cost in IRP-based PURPA contracts. Staff's conclusion is based on two types of analysis: a comparison of the Company's proposed price forecast to last year's forecast in Case No. AVU-E-17-10 and by comparing the Company's forecast to EIA's natural gas price forecasts and to Idaho's other two regulated electric utility price forecasts.

The comparison between the 2018 forecasts and the 2017 forecasts showed annual differences that range from -10.92% to 6.35% for Henry Hub prices (see Figure 1) and from -20.54% to 9.05% for Stanfield Hub prices (see Figure 2) from years 2019 through 2040. On average, the overall 2018 price forecast is lower than the overall 2017 price forecast with a few exceptions in the 2030s. Staff believes this can be attributed to increased natural gas production from continued development of shale gas and tight oil plays, which is projected to outpace gas consumption.[1] Because natural gas market conditions are predicted to continue to be favorable, Staff believes that the change in the Company's price forecast over the long term is acceptable.

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[1] U.S. Energy Information Administration, Annual Energy Outlook 2018 with projections to 2050, Feb. 6, 2018 at 62 *available at* https://www.eia.gov/outlooks/aeo/pdf/AEO2018.pdf (last visited Nov. 28, 2018).

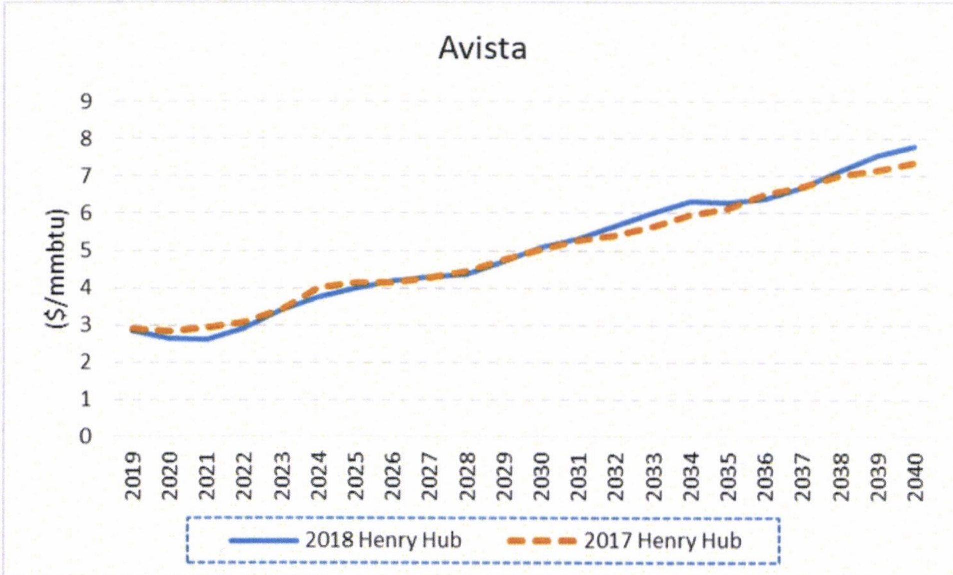

Figure 1 Avista's 2018 Forecast and 2017 Forecast for Henry Hub Prices

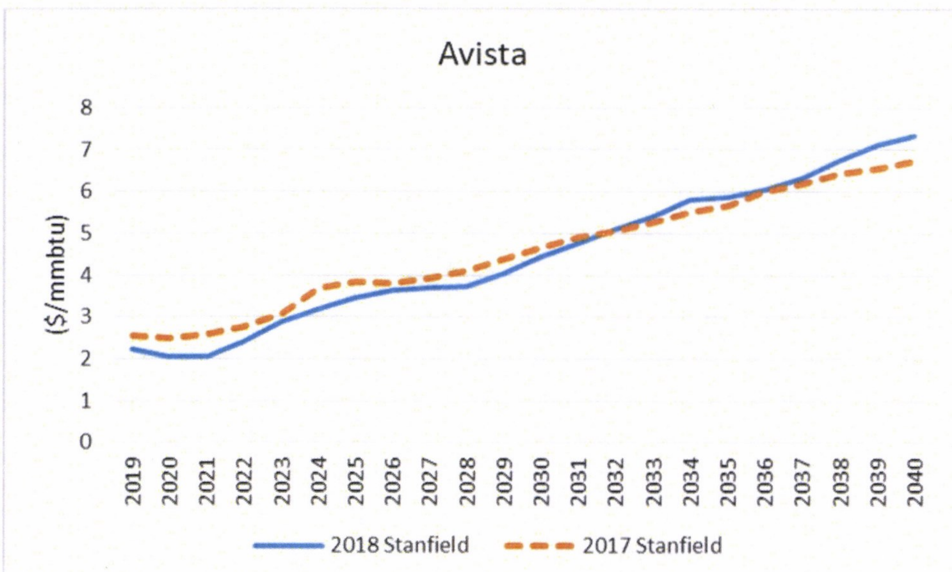

Figure 2 Avista's 2018 Forecast and 2017 Forecast for Stanfield Prices

Staff also compared Avista's Henry Hub price forecast to Idaho Power's, Rocky Mountain Power's, and two of the U.S. Energy Information Administration (EIA)'s Henry Hub price forecasts (see Figure 3). Although all the natural gas price forecasts reflect a similar trend and show natural gas prices at Henry Hub increasing over time, it correlates heavily with Rocky Mountain Power's natural gas price forecast, which uses futures market pricing during the first two to three years. This is important because IRP-based PURPA contracts are capped at a two-year contract length, and the avoided costs in any new contract will reflect this early pricing. In this case, futures market prices reflect continued strong natural gas market fundamentals with low near-term natural gas prices, which Staff finds reasonable.

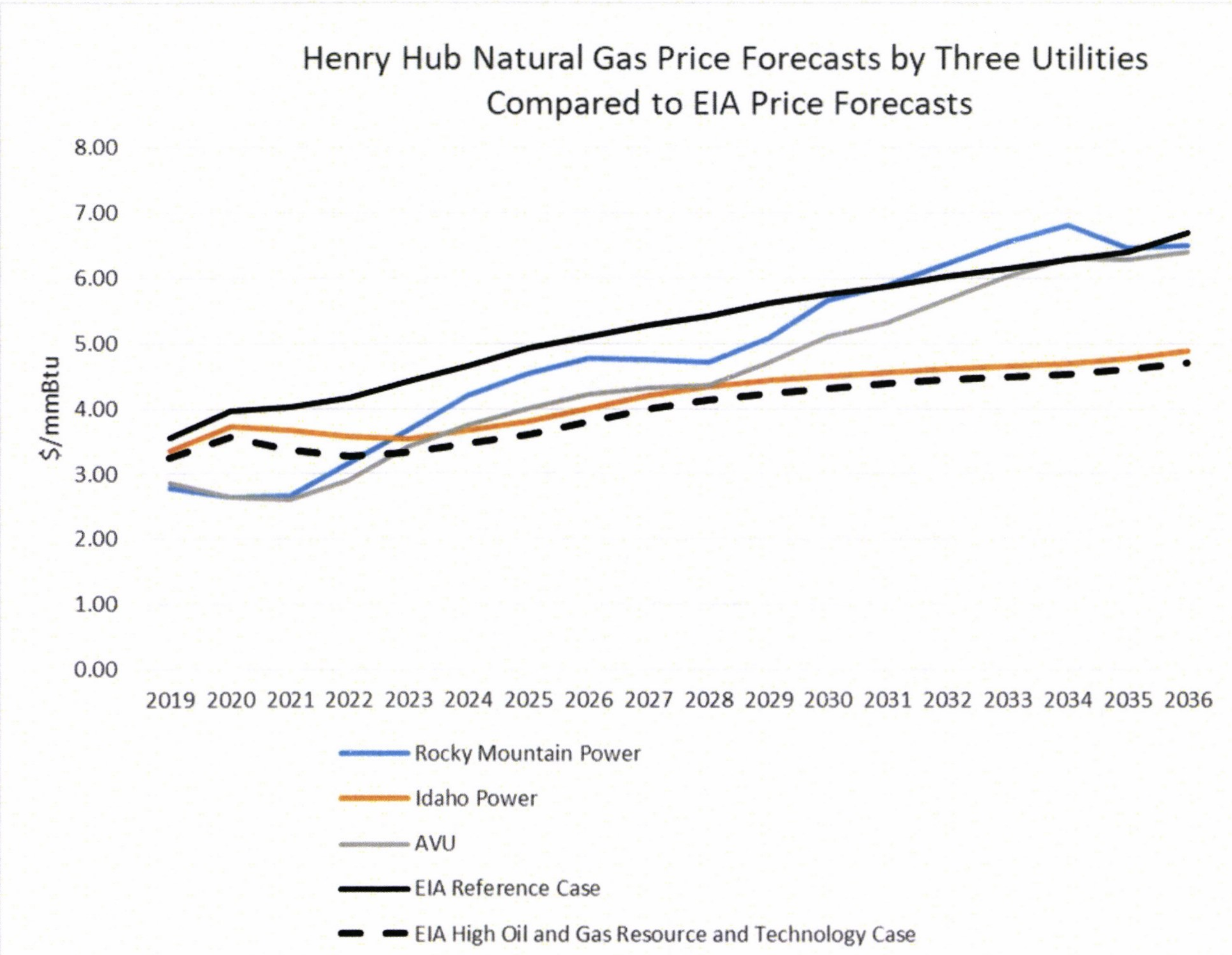

Figure 3 Comparing Three Utilities' Henry Hub Price Forecasts to EIA's Henry Hub Price Forecasts

Contract Terminations, Expirations, and Additions

Staff has verified the contract information and finds it accurate. Avista has signed three new PURPA contracts and two Power Purchase Agreements since the 2017 filing.

STAFF RECOMMENDATIONS

Staff believes the load forecast, the natural gas price forecast, and the contract information submitted by Avista reflect their most recent estimates and comply with Order Nos. 32697 and 32802. Staff recommends approval of the updated load forecast, natural gas price forecast, and long-term contracts to be used to calculate avoided cost rates in the Company's QF IRP methodology rate calculation with an effective date of October 15, 2018.

Respectfully submitted this 28th day of November 2018.

Edward Jewell
Deputy Attorney General

Technical Staff: Yao Yin
Rachelle Farnsworth

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 28TH DAY OF NOVEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-18-11, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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