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June 18, 2010

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. GNR-E-09-03
IN THE MATTER OF A REVIEW OF THE SURROGATE AVOIDABLE RESOURCE (SAR) METHODOLOGY FOR CALCULATING PUBLISHED AVOIDED COST RATES

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Avista and Idaho Power Company's Joint Comments Regarding Staff's Strawman Proposal.

Very truly yours,

Donovan E. Walker

DEW:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A REVIEW OF THE SURROGATE AVOIDABLE RESOURCE (SAR) METHODOLOGY FOR CALCULATING PUBLISHED AVOIDED COST RATES	)	CASE NO. GNR-E-09-03 AVISTA AND IDAHO POWER COMPANY'S JOINT COMMENTS REGARDING STAFF'S STRAWMAN PROPOSAL

I. BACKGROUND

In Order No. 30873, issued in this case on August 6, 2009, the Commission initiated an assessment of the continued viability of the Commission's existing proxy unit or surrogate avoided resource ("SAR") methodology for calculating published avoided cost rates. The Commission stated concern "that a disparity exists between Idaho's published avoided cost rate established using a natural gas-fired surrogate resource and the cost to a utility of developing and operating its own wind generation project." Order No. 30873, p. 3. Accordingly, the Commission directed Avista Corporation ("Avista"), Idaho Power Company ("Idaho Power"), and PacifiCorp, as well as other

interested parties, to file written comments regarding whether the present SAR methodology for published avoided cost rates should be modified and, if so, the Commission requested a description in general terms of how the methodology should be modified. *Id.*

The three utilities filed comments on September 18, 2009. Although there were some differences between the joint comments filed by Avista and Idaho Power and the comments filed by PacifiCorp, all of the utilities agreed that a wind SAR should be developed.[1] The utilities also all suggested that the current SAR cost-estimation model could be used for a starting point to calculate a wind SAR avoided cost rate, which would be utilized for wind PURPA projects.

At the direction of the Commission, Staff prepared a Strawman Wind SAR proposal, and circulated it to the parties on May 27, 2010, requesting comments by June 18, 2010. Staff's proposed avoided cost model for wind was developed using as a starting point the existing model that is used to compute avoided cost rates based on a gas-fired CCCT.

II. INTRODUCTION

Avista and Idaho Power (sometimes referred to collectively herein as "the Companies") are pleased to provide comments on the Staff proposal for a wind SAR. The Companies believe Staff has developed a common-sense approach for solving a growing problem in Idaho where the majority of PURPA projects coming onto the system are wind, and the projects are being compensated based on the value of a gas-fired SAR with vastly different operating characteristics. The Companies are also

[1] Avista and Idaho Power filed Joint Initial Comments in this matter and likewise now file Joint Comments regarding Staff's Strawman proposal. PacifiCorp's filed its own initial comments.

pleased that the Commission is interested in finding a resolution to the question of who owns the renewable energy credits ("RECs") associated with a PURPA project. The Companies' position is that where a utility constructs a new wind facility, it owns the RECs in addition to the generated power. It follows that where a utility pays a rate that approximates its avoided cost for wind, that utility should similarly obtain the RECs.

The Strawman wind SAR is an excellent starting point for discussion. Staff's proposal to continue using the existing gas-based SAR model for the new wind SAR is a reasonable approach that removes the complexity of developing a new tool.

The Companies have a number of thoughts about the wind SAR that are discussed below. While we are in agreement with the modeling approach and many of the assumptions in the Strawman proposal, we will highlight some changes we believe are necessary to ensure comparability between PURPA rates for wind, and expected utility costs for the same resource.

III. AVOIDED COST MODEL FOR WIND

As an initial comment, Staff acknowledged that one necessary component of an Avoided Cost Model for wind is the identification of reliable data sources for the inputs, as well as a process for consistently updating the data. The Companies agree. We believe that reliable and independent data sources can be identified and, further, that a mechanism can be adopted that will provide for the consistent updating of those numbers that will be acceptable to all parties. Any mechanism should balance the need for PURPA rate stability with providing adequate assurance that the prices paid by utility customers are not too high.

A. Capital Costs

Wind turbine prices are very volatile. In Avista's 2003 Integrated Resource Plan ("IRP"), wind projects were forecast to cost $679 per kW. In recent times the costs have risen to a point where some projects exceeded $2,000 per kW. Over the past 9 months, wind turbines (i.e., absent any balance of plant costs) appear to have fluctuated between $1,200 and $1,700 per kW. This $500 per kW difference is equal to approximately a 25 percent price change. Therefore, new wind resource capital cost estimates should be based on current prices.

The Companies are not proposing a specific capital cost for wind at this time. However, allowance for funds used during construction, or AFUDC, should be included in the estimate. AFUDC costs, though not as significant as for longer lead-time projects, are real costs that would be incurred by a utility. It might also be useful to separate the capital cost estimate into at least four categories, both for transparency and for making updates to the wind SAR assumptions easier. The following categories are recommended: (1) turbine prices, (2) balance of plant and installation, (3) interconnection, and (4) AFUDC. Interconnection is discussed below in further detail.

The degree to which specific line items such as turbine prices, balance of plant, and AFUDC are broken out in the SAR calculation will likely depend upon the data source(s) that is/are ultimately selected. To the extent that these line items are or are not addressed in the data source, they may or may not be required to be broken out in the SAR calculation.

B. Plant Life

The Companies believe that a plant life of between 20 and 30 years is reasonable. The Strawman proposal of 25 years is a good proxy.

C. Plant Cost and General Escalation

The Companies concur with the Strawman values of 1.4 percent and 1.9 percent.

D. Capacity Factor

Plant capacity factor is a large driver of the avoided cost rate. To ensure comparability with actual utility avoided costs, this value must be set accurately. The Strawman wind SAR proposal assumes a 30 percent capacity factor. In the past, the Companies would have concurred with Staff's estimate based on the turbine technology options available for wind projects in their service territories. However, the advent of better technology, namely due to longer turbine blades, allows higher capacity factors. Therefore, using a higher capacity factor is prudent here.

Avista would support a capacity factor estimate of 33 percent.[2] Similarly, Idaho Power has seen some variation in capacity factors for wind across its service territory, upward from 30 percent, and most recently has used a similar capacity factor estimate in its 2009 integrated resource plan.

E. Fixed and Variable O&M

The Companies support the Strawman figures, as they are similar to their own estimates.

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[2] This is consistent with Avista's experience with its permitted Reardan wind project. The capacity factor for that project is now estimated to be around 33 percent instead of 30 percent based on currently-available turbine technologies. This equates to 10 percent more energy and significantly impacts avoided cost rates.

F. Miscellaneous Assumptions

The Companies concur with the Strawman assumptions in this category.

G. Financial Assumptions

The Companies concur with the Strawman assumption that utility-specific capital costs will be used.

H. Transmission

Only those transmission costs associated with delivering electrical energy within a utility's service territory should be under consideration in this proceeding. The Companies generally agree with Staff that a potential exists for any new generation resource to create incremental transmission expenses associated with bringing such resources from various, and often rural, locations within a utility's service territory to the load centers. While we acknowledge that this concept is likely valid, there are still questions regarding the proper quantification of this cost. Staff's approach "to base transmission costs on the average embedded transmission costs of the three utilities as reported in unbundling reports that were filed with the Commission form 1996-2003" may be a reasonable approach; however, further investigation is necessary and a better solution is possible.

I. Interconnection

The present gas-based SAR, and proposed wind SAR, does not explicitly distinguish between the overall installed cost of the resource and its interconnection component. Ignoring this distinction can lead to confusion, and the possible double counting of interconnection costs. One must also be careful not to lump transmission and interconnection costs in the same bucket; they are very separate and distinct

processes with their own associated costs. Interconnection costs are those costs necessary to connect a project to the utility's electrical system, and typically include substation and switching gear.

For clarity, the wind SAR should include costs for interconnection either as a separate line item, or as a component of the capital cost in the model. Though interconnection costs can vary greatly, it is reasonable to include some amount within the wind-SAR assumptions.[3]

J. Forecasting

The Companies agree that wind forecasting should be recognized as a cost in the model. However, the cost should result in a deduction to the avoided cost rate, not an addition. As stated in the Staff's proposal, forecasting costs are minor but real. Forecasting costs are currently shared between the utility and the wind project. If the pricing model included an adder for forecasting as presently proposed, the current sharing method would be usurped and the utility would essentially be paying twice for this cost.

K. Wind Integration Discount

The Companies agree with Staff's approach on wind integration. We believe a discount for wind integration should be included in the wind SAR model. This said, the utilities recognize that a wind integration discount may not be appropriate under certain circumstances.

[3] Avista, in its IRP, included between $50 and $100 per kW for interconnection. On a 10 aMW (30 MW nameplate) wind project, interconnection would therefore equate to somewhere between $1.5 and $3.0 million.

IV. WIND PROJECT ELIGIBILITY FOR GAS-BASED SAR

The Companies believe that ideally wind generation resources would qualify only for a wind SAR price. Wind PURPA projects should transfer all project value, including all environmental benefits such as RECs, to the purchasing utility in order to be consistent with the underlying theory behind a wind specific SAR. Therefore, the Companies propose that wind projects' choice to use either the wind or the gas-based SAR be eliminated. Non-wind PURPA projects would continue to be eligible for the gas-based SAR price and retain the RECs associated with their projects.

V. CAPACITY DISCOUNT

To the extent that the Commission decides to provide an opportunity for wind projects to qualify for the gas-based SAR, such wind resources should not receive payments for services they do not provide. Under the gas-based SAR, the wind integration discount reduces the value, or payment made, based on the capacity services the variable generation asset consumes. However, the gas-based SAR resource provides on-peak capacity that a utility can rely on to serve on-peak loads.[4] Regional work over the past few years by Avista and other utilities, the Northwest Power and Conservation Council and BPA, has shown that wind resources do not provide any significant (somewhere between 0 percent and <5 percent) on-peak capacity contribution. This recent finding should be reflected in the rates paid for wind resources.

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[4] The gas-fired resource upon which the present SAR is based provides on-peak capacity. In other words, the purchase of a gas-SAR equivalent resource contributes to meeting the growing capacity obligations of the utility. A wind resource does not provide this capacity, it only provides energy. When a utility builds a gas resource, it reduces its future capacity needs by the capacity of the resource. In contrast, when a utility builds a wind resource, it does not make this adjustment and an additional capacity resource would still need to be constructed.

Utility resource needs today are driven mainly by capacity obligations. Energy is a secondary consideration. Because variable generation such as wind provides no significant on-peak capacity contribution, such variable generation will not eliminate the need to construct capacity resources. Thus, adding a variable generation resource such as wind will not enable a utility to avoid the construction of additional capacity resources. The wind SAR has the benefit of eliminating this concern, at least from a cost perspective. However, because the Strawman proposal still would afford a wind developer the opportunity to select a gas-based SAR rate, a discount in addition to the wind integration rate must be made.

To determine the impact of purchasing a resource without an on-peak capacity contribution, Avista ran its IRP PRiSM model. The result was that approximately 60 percent of the installed cost of a gas-fired CCCT plant is associated with on-peak capacity. This would imply that any variable generation asset that does not bring with it capacity should be discounted by 60 percent of the cost of a gas-fired project.

To arrive at a capacity discount for wind resources electing to take the gas-based SAR price instead of the wind SAR price, Avista modified the latest version of the Commission's gas-based SAR model (v. 9.2). The SAR Plant Cost in the model was reduced by 60 percent, from $1,313 per kW to $525 per kW. This change reduced the 20-year levelized rate for 2010 projects delivered to Avista from $79.17 per MWh to $67.14 per MWh, implying an approximate $12 per MWh capacity discount that should be added to the wind integration discount for wind resources electing to talk the gas-based SAR price.

VI. CONCLUSION

The Companies are generally supportive of the methodology put forth by Staff in its Strawman Proposal for an avoided cost model for wind. The Companies look forward to the review of other parties' submissions in response to Staff's proposal, as well as the future workshops and proceedings designed to work toward the establishment of a Wind SAR Avoided Cost Model.

DATED at Boise, Idaho, this 18th day of June 2010.

MICHAEL G. ANDREA
Attorney for Avista Corporation

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 18th day of June 2010 I served a true and correct copy of AVISTA AND IDAHO POWER COMPANY'S JOINT COMMENTS REGARDING STAFF'S STRAWMAN PROPOSAL upon the following named parties by the method indicated below, and addressed to the following:

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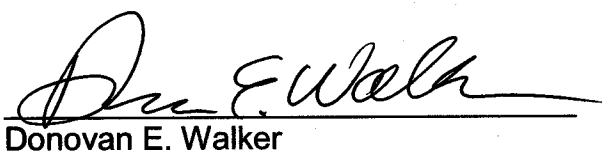

Donovan E. Walker