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December 21, 2010

**Via Email and Overnight Mail**

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Email: [jean.jewell@puc.idaho.gov](mailto:jean.jewell@puc.idaho.gov)

Re: Initial Comments of Avista Corporation  
IPUC Docket No. GNR-E-10-04

Dear Ms. Jewell:

Please find enclosed an original and seven copies of Avista Corporation's Initial Comments in the above-referenced docket. Please let me know if you have any questions regarding this filing.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael G. Andrea", written in a cursive style.

Michael G. Andrea  
Senior Counsel

Enclosures

cc: Service List

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT PETITION )  
OF IDAHO POWER COMPANY, AVISTA ) CASE NO. GNR-E-10-04  
CORPORATION, AND PACIFICORP TO )  
ADDRESS AVOIDED COST ISSUES AND ) INITIAL COMMENTS OF AVISTA  
JOINT MOTION TO ADJUST THE ) CORPORATION  
PUBLISHED AVOIDED COST RATE )  
ELIGIBILITY CAP. )  
\_\_\_\_\_)

Pursuant to the Notice issued by the Idaho Public Utilities Commission (“Commission”) on December 3, 2010 in Order No. 32131 (“Notice”), Avista Corporation (“Avista”) respectfully submits the following comments in support of reducing the eligibility cap for the published avoided cost rate.

**I. Introduction**

On November 5, 2010, Avista Corporation along with Idaho Power Company and PacifiCorp, dba Rocky Mountain Power, (collectively, the “Utilities”) filed a Joint Petition requesting the Commission to initiate an investigation into various avoided cost issues regarding PURPA Qualifying Facilities (“QFs” or “QF” where referring to a singular qualifying facility). Additionally, the Utilities requested that the Commission issue an order adjusting the published avoided cost rate eligibility cap for QFs from 10 average megawatts (“aMW”) to 100 kilowatts (“kW”) effective immediately.

On December 3, 2010, the Commission issued the Notice in which it, among other things, set a modified procedure comment schedule with which to develop a record for its decision regarding the Joint Petition and Motion's request to lower the published avoided cost rate eligibility cap. Order No. 32131, Case No. GNR-E-10-04. In the Notice, the Commission indicated that this proceeding will be bifurcated into two phases. In this first phase, the Commission will address the Utilities' request to reduce the eligibility cap. Specifically, the Commission set out three specific topics that it is interested in receiving comments upon:

(1) the advisability of reducing the published avoided cost eligibility cap; (2) if the eligibility cap is reduced, the appropriateness of exempting non-wind QF projects from the reduced eligibility cap; and (3) the consequences of dividing larger wind projects into 10 aMW projects to utilize the published rate.

Initial comments on the issues set for this first phase are due on December 22, 2010, with reply comments due January 19, 2011. Oral Argument on these first phase issues is scheduled for January 27, 2011. In these comments, Avista will address these topics. Avista reserves the right to comment on any other PURPA-related issues in subsequent phases of this proceeding.

## **II. Background**

Avista has an obligation under federal law and this Commission's orders to enter into power purchase agreements with qualifying facilities. As other utilities in Idaho have found, unfettered additions of PUPRA QF generation onto Avista's system carries with it the potential for negative and damaging effects to the utility and its customers.

Published rates are intended for smaller projects, in large part to ease the administrative burden of the developer in negotiating the economic component of a QF contract. After published rates are established by the Commission, changes in conditions can quickly cause them to be either too high or too low as compared to actual avoided resource costs. It is reasonable to

accept the imperfections of the published rates (i.e., the rates being either too high or too low for a period of time) in order to accommodate small QF developers because: 1) small QF developers generally have fewer resources to dedicate to complex contract negotiations, and 2) the financial impact to Avista's retail customers from paying a published rate in excess of the actual cost will be, for a small QF project, small. But where larger projects are afforded published rates that exceed actual avoided costs, Avista's retail customers are harmed.

Avista is now receiving proposals for utility-scale projects by developers with both the means and sophistication to negotiate a QF rate more representative of the costs the utility will avoid. Such a negotiation is the only way to determine the true avoided cost of the utility, recognizing the specific operating characteristics of the QF.

The first, and largest concern for Avista at this time, is paying more for a QF's output than it would cost for the utility to develop a similar project itself. Recent interest by potential qualifying facilities highlights the speed at which new developments could overwhelm Avista's ability to absorb them using its currently-available flexible generation resources. Avista understands that several regional utilities, including Idaho Power and the Bonneville Power Administration, are already experiencing significant issues integrating variable generation facilities such as wind into their systems. Avista shares the concerns of regional utilities regarding the implications of integrating large amounts of variable energy resources on its system

Lowering the published rate eligibility cap does not eliminate or otherwise diminish Avista's obligation to purchase power from qualifying facilities. Reducing the eligibility cap to QFs of 100 kW or less is consistent with federal law. *See* 18 C.F.R. § 292.304c. Rates paid to larger QFs should be set at avoided costs reflecting the incremental value of the QF generation to

the utility. To the extent that a resource is unable to provide similar generating characteristics to the Surrogate Avoided Resource, its payments would be adjusted accordingly.

PURPA's intent is that utility customers are economically indifferent to the effects of whether output is purchased from a QF or otherwise acquired (generated or purchased) by the utility. When the utility is obligated to buy QF power at a price exceeding its avoided costs, customers are no longer indifferent.

For the reasons discussed herein, Avista provides these comments in support of the Utilities' request to reduce the current 10 aMW cap for eligibility for published avoided cost rates.

### **III. Comments in Support of Reducing the Published Avoided Cost Eligibility Cap**

#### **A. The Advisability of Reducing the Published Avoided Cost Eligibility Cap**

Reducing the eligibility cap for published avoided cost rates is essential for two reasons that have a direct effect on utility customers: 1) utility customers are paying developers too much under the published rates, and 2) QF development levels have the potential to compromise system reliability.

##### **1. The Economics**

The explosion of QF development is underpinned by pure economics: a value stream, substantially supported by the published avoided cost rate, that exceeds the expenses a developer or utility would incur for equipment purchase, construction and operations. This is especially the case when a project in reality is not "small" but instead represents a portion of a much larger project benefitting from economies of scale. Published PURPA rates are especially attractive to these projects. In other words, QF developers are "gaming the system" by breaking larger projects into smaller 10 aMW projects that otherwise would not be eligible for published rates.

There is now a race to develop projects that might not occur absent a rate that exceeds actual avoided costs. The impacts are significant.

Avista is witnessing this rush firsthand. It currently has a total of 91 MW—5% of system peak—of PURPA power on its system today under nine contracts. All are hydro except for two biomass projects. This total is comprised of projects developed over the past 30+ years. Today's published rates have attracted more than 450 MW of new development to Avista's system; 90% was received over the past year, and nearly half over the past 3 months. This level of development would bring PURPA capacity to 30% of system peak. Of the 19 new requests, only one is below one megawatt and three are below 10 MW.

Standing alone, a 30-35 MW wind farm creates approximately 10 aMW. Similarly, 50-60 MW of solar equates to approximately 10 aMW. These projects are large by themselves and approach or equal utility scale. Because of the 10 aMW eligibility cap, even larger projects are able to split into smaller groupings to obtain both the benefits of economies of scale and eligibility for the published rate while maintaining the one-mile separation required by FERC.

The ratepayer impact of allowing larger projects to avail themselves of the published rate is significant. Assuming all of the wind being proposed on Avista's system is developed at a price that is, for example, \$15 per MWh (~20%) more than its value under an individually-calculated avoided cost, customers would spend nearly \$15 million more per year for one million megawatt-hours of PURPA power, the amount of incremental power that would be generated by the new QF requests on Avista.<sup>1</sup> Over a 20-year life, the total overpayment would equate to

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<sup>1</sup> \$15 per MWh represents an approximation of the capacity discount the Joint Utilities proposed recently before the Commission. It also could be considered representative of the Renewable Energy Credit value that developers propose to retain when building a qualifying renewable resource.

\$300 million, a figure exceeding Avista's total Idaho annual electrical revenue requirement of approximately \$250 million.

## **2. Reliability**

Recent QF interest directed to Avista highlights the speed at which new developments could overwhelm Avista's ability to absorb them. Over just the past few months Avista has seen a large increase in interest from qualifying facilities. We cannot guarantee that the existing levels of flexibility in our system will be capable of integrating the variation created by a large increase in QF deliveries absent additional investments in new generation. This result is supported by other utilities throughout the region that are already experiencing, or are immanently facing, substantial wind penetrations on their systems (e.g., BPA and Idaho Power).<sup>2</sup> Avista customers would shoulder the burden of new resource construction necessary to maintain adequate system flexibility in the advent of a substantial amount of variable energy resource additions to Avista's own system created by the existing PURPA rate structure.

## **3. The Solution**

An efficient fix, as proposed by the Joint Utilities, is to reduce the eligibility for the published rate to 100 kW, the limit established by federal law. *See* 18 C.F.R. § 292.304c. Larger QFs will still be eligible to sell to the utilities, but they will enter into negotiations so that all attributes of the projects are considered on a comparable basis.

### **B. The Appropriateness of Exempting Non-Wind QF Projects from the Reduced Eligibility Cap**

It is not appropriate to unilaterally exempt non-wind QF projects from a reduced eligibility cap for three reasons. First, in some cases the utility and its customers would still be

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<sup>2</sup> Both BPA and Idaho Power have publicly expressed their concerns about the growing wind amounts on their systems, and the potential for reliability and cost impacts.

paying too much relative to a published rate based on the surrogate avoided resource. Second, other non-wind technologies have the ability to break their facilities into smaller pieces with the express intent of obtaining a rate that in many cases will not equal avoided cost. Finally, published avoided cost rates should be available only to small developers without the financial or technical means to negotiate an avoided cost rate.

### **1. Paying Too Much**

Avista believes at this time that policy should not discriminate between varying technology and/or fuel types. The unique characteristics of QFs present circumstances where the purchase price is best set through an evaluation of the resources' contributions to the system. Examples of the need for negotiation are wind, solar, and other qualifying variable resources. Some of these resources do not provide capacity at the time of system peak. They are *net consumers* of system capacity, meaning that unlike the surrogate avoided resource that provides power at the time of system peak, variable resources are not likely to be producing any generation and the utility must stand ready with reserves to accommodate their variability. The consumptive use of capacity, as well as other characteristics associated with wind resources, has resulted in the need to include a wind integration charge under existing published rates.<sup>3</sup> In addition to this cost, variable resources will not displace the utility's need to build new resources to meet peak load requirements. Earlier Joint Utility comments recommended a "capacity discount" of approximately \$15 per MWh to account for the fact that while the surrogate gas-fired resource would displace the construction of utility generation, a variable resource would not. This value was determined by an analysis of the capacity component of the gas-fired

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<sup>3</sup> Avista is concerned about the potential system impacts and costs of non-wind variable renewable generation sources, and the fact that there is not presently any means to account for this variability as with wind.

surrogate avoided resource. Solar and other variable resources likely are in the same category and will require a capacity discount.

Alternatively, QF resources that can be reasonably expected to provide significant levels of generation during periods of system peak should not receive the same discount. Biomass and geothermal are potential examples that might have the ability to deliver their rated output at the expected times of utility system peak. Hydroelectric generation facilities, on the other hand, might be relied upon to provide some capacity level, but oftentimes their rated capacity at system peak periods in the summer and winter are significantly reduced. Hydro resources therefore might not warrant a full capacity credit.

Irrespective of their underlying technology or fuel source, Avista believes at this time that it is not appropriate to exempt any resource from the 100 kW limit. Evaluating each QF resource's contribution to the utility's needs will ensure a fair price is paid.

## **2. Dividing Large Projects into Smaller Projects**

Avista believes that the eligibility cap should not discriminate based on technology or fuel type due to the ability to break one large project into smaller projects to remain eligible for published rates. It might be true that some technologies and fuel types are less capable of splitting themselves up; however, it would appear that any QF resource might have the potential to exercise this option. At 100 kW it will be difficult for a QF resource to circumvent the intent of the Commission's rules on eligibility for the published rates.

## **3. Published Rates are for Small QF Developments**

Published rates are intended for smaller projects, in large part to ease the administrative burden of the developer in negotiating the economic component of the QF contract. It might be reasonable to accept the imperfections of the published rates (i.e., the rates being either too high

or too low for a period of time) in order to accommodate small QF developers because: 1) small QF developers generally have fewer resources to dedicate to complex contract negotiations, and 2) the overall financial impact to Avista's retail customers from paying a published rate in excess of the actual cost will be, for a small QF project, small. But where larger projects are afforded published rates that exceed actual avoided costs, Avista's retail customers will clearly be harmed.

Proposals for larger utility-scale projects, where the developers have both the means and sophistication to negotiate a QF rate, should be subject to a negotiated rate. Such a negotiation is really the only way to determine the true avoided cost of the utility, recognizing the specific operating characteristics of the QF.

**C. The Consequences of Dividing Larger Wind Projects into 10 aMW Projects to Utilize the Published Rate**

There are many consequences of continuing to allow large wind farms the ability to divide into 10 aMW projects. The primary concern is the impact on customers who potentially will pay much higher rates than they otherwise would if the utilities developed or acquired resources through a competitive process.

Second, a situation has been created whereby utilities are facing unprecedented levels of QF development, especially from non-dispatchable variable generation resources that in large volumes have the potential to adversely affect system reliability.

Finally, enabling essentially unlimited QF eligibility for published rates creates a vacuum because published rates in Idaho 1) are much higher than neighboring states, and 2) much higher than the market value of the QF production. Avista believes that if the ability to divide large projects into small projects is removed, a balance will return to Idaho that will both provide a fair price offering to QF developers and a fair purchase price for utility customers.

Present published rates have the potential to compromise a utility's competitive acquisition processes (i.e., a request for proposals, or "RFP"). With the opportunity for a high published avoided cost rate, and an essentially unlimited ability to break up a utility-scale project to gain access to the published rates, PURPA developers have no incentive to competitively bid their projects into a utility's RFP process. A situation of artificial competition is created that ultimately harms utility customers because the best and least-cost projects are not bid into the RFP process. A 100 kW limit would offer the possibility of more resources becoming available to utilities when they issue their competitive RFPs.

#### **IV. Conclusion**

Avista appreciates the opportunity to provide these initial comments on PURPA published rate eligibility. Based on the facts, Avista believes it is essential that the Commission reduce the eligibility for published avoided cost rates to 100 kW for all QF facilities as soon as it is possible. Absent such a reduction existing customers will be harmed by paying too much for QF generation, and by the potential for reliability-related system upgrade costs necessary to accommodate ever increasing amounts of new variable QF generation.

DATED this 21st day of December 2010.



Michael G. Andrea  
Attorney for Avista Corporation

## CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of December 2010, true and correct copies of the foregoing Initial Comments of Avista Corporation were delivered to the following persons via Email.

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