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IDAHO PUBLIC
UTILITIES COMMISSION

June 28, 2012

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

RE: GNR-E-11-03 - Rebuttal Testimony and Exhibits of Mr. Clint Kalich

Dear Ms. Jewell:

Enclosed please find the Rebuttal Testimony and Exhibits of Mr. Clint Kalich, submitted for filing in the above-referenced docket on behalf of Avista Corporation. Per the Commission's Rules of Procedure, we have enclosed an original and nine (9) copies, as well as a compact disc containing a copy of the testimony in word format. The first enclosed copy is hereby designated as the reporter's copy.

If you have any questions regarding this filing, please contact Clint Kalich at 509.495.4732 or me at 509.495.4584.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Kimball", written over a horizontal line.

Paul Kimball
Regulatory Analyst

Enclosures

CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that I have served Avista Corporation's Rebuttal Testimony and Exhibits of Mr. Clink Kalich in GNR-E-11-03, by electronic mail to the following:

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By: 

Paul Kimball
Regulatory Analyst

June 28, 2012

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IDAHO PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S)
REVIEW OF PURPA QF CONTRACT)
PROVISIONS INCLUDING THE)
SURROGATE AVOIDED RESOURCES)
(SAR) AND INTEGRATED RESOURCE)
PLANNING (IRP) METHODOLOGIES FOR)
CALCULATING AVOIDED COST RATES)
_____)

CASE NO. GNR-E-11-03

REBUTTAL TESTIMONY OF CLINT KALICH

AVISTA CORPORATION

June 29, 2012

1 **Q. Please state your name, the name of your employer, and your business**
2 **address.**

3 A. My name is Clint Kalich. I am employed by Avista Corporation
4 (“Avista”) at 1411 East Mission Avenue, Spokane, Washington.

5 **Q. Did you provide direct testimony in this proceeding?**

6 A. Yes. I submitted the Testimony of Clint Kalich filed in this proceeding on
7 behalf of Avista Corporation on January 31, 2012.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. In my rebuttal testimony I respond to issues raised in direct testimony filed
10 in this case by Rick Sterling and Dr. Cathleen McHugh on behalf of the Idaho Public
11 Utilities Commission (“Commission”) Staff, Mr. Schoenbeck on behalf of Northside
12 Canal Company, Twin Falls Canal Company (“TFCNSC”), and Dr. Reading on behalf of
13 Clearwater Paper Corporation, J.R. Simplot Company, and Exergy Development Group
14 of Idaho, LLC.

15

16 *Testimony of Commission Staff*

17 **Q. Please summarize your views on the direct testimony of Commission**
18 **Staff.**

19 A. Commission Staff took a number of positions of interest to Avista,
20 summarized by Table R1.

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Table R1 – Summary of Avista Responses to Staff Positions

No.	Staff Position	Avista Position
1	Retain SAR for Small QFs	Support
2	Limit published rate eligibility to 100 kW for wind and solar facilities	Support
3	Limit published rate eligibility for non-wind/solar to 10 aMW	Oppose, in favor of limiting published rate eligibility for non-wind/solar to 10 MW nameplate
4	Replacement of NPCC with EIA Mountain natural gas forecast	Support
5	Discount QF payments for transmission costs	Support
6	Base capacity payment on SCCT for IRP methodology	Generally Support
7	Consideration of utility energy and/or capacity needs in calculating avoided costs	Support
8	Modifications to Avista-edited SAR model	Support
9	Annual updates to assumptions	Support
10	No prior-to-commercial-operation time limit on PURPA contract requests	Oppose in favor of 5-year limit
11	5-year PURPA rate lock-in term	Support
12	QF contracting procedures & rules	Support
13	Resource-specific values for capacity payments	Support
14	Adjust avoided cost rates in exchange for assignment of RECs to utility	Oppose

2

3 **Q. In his testimony, Mr. Sterling indicated that the Integrated Resource**
4 **Planning (“IRP”) methodology should not be applied to small projects (i.e., solar**
5 **and wind facilities up to 100 kW nameplate and up to 10 aMW for all other project**
6 **types) and the Surrogate Avoided Resource (“SAR”) methodology should continue**
7 **to be used for such small projects. Do you agree that the SAR methodology should**
8 **be retained for small projects?**

9 **A. Yes. I agree with Mr. Sterling that the SAR should continue to be used for**
10 **relatively small projects. That said, I think some minor changes to the SAR methodology**
11 **are warranted.**

12 **Q. What revisions should be made to the SAR?**

1 A. First, I support Staff's position to maintain the 100 kW nameplate cap for
2 wind and solar published avoided cost rates. Although I do not agree that the eligibility
3 cap for published avoided cost rates for such variable (wind and solar) projects should be
4 changed, I do agree with Mr. Schoenbeck that the eligibility cap should be 10 MW
5 nameplate capacity for all other types of projects (i.e., projects that are not wind or solar
6 projects).

7 **Q. Why do you support changing the eligibility cap for published**
8 **avoided cost rates for projects other than wind and solar from 10 aMW to 10 MW**
9 **nameplate capacity?**

10 A. Because the IRP methodology produces avoided cost rates for projects that
11 more accurately reflect the utility's actual avoided cost, the IRP methodology should be
12 used to calculate avoided cost rates for all but very small projects. Capacity limits
13 generally are stated in terms of nameplate capacity, not average energy. Using the
14 average megawatt (aMW) term is fairly unique to the northwest. More importantly,
15 using aMW has the potential to allow very large QFs to benefit from contracting terms
16 (and arbitrage). For example, prior to the 100 kW limit imposed on solar and wind
17 projects by the Commission, the published avoided cost rates, assuming a 20% capacity
18 factor, could be applied to projects as large as 50 MW.¹ Application of published
19 avoided cost rates to such large variable projects led to unintended consequences and, as
20 a result, the Commission reduced the eligibility cap for access to published rates for wind
21 and solar projects to 100 kW.

¹ 50 MW * 20% capacity factor = 10 aMW.

1 Although it might be difficult to disaggregate other types of projects, it is possible
2 that developers will find similar ways to arbitrage published rates to their favor at the
3 expense of utility customers. The potential for such arbitrage is enhanced when
4 published avoided cost rates are available for larger projects. Capping published rate
5 eligibility at 10 megawatts (MW) nameplate would limit the arbitrage opportunities of
6 creative developers without compromising the intent of PURPA.

7 **Q. In her testimony, Dr. McHugh recommends adoption of the EIA**
8 **Mountain region gas forecast. Do you agree with this change?**

9 A. Yes. In my direct testimony I recommended use of the EIA Pacific
10 forecast. The Mountain forecast covers Idaho and, therefore, I agree that the EIA's
11 Mountain forecast should be used.

12 **Q. With regard to the SAR and IRP methodologies, Mr. Sterling**
13 **proposes to account for transaction-related transmission costs and losses. Do you**
14 **agree that such transmission costs and losses should be accounted for?**

15 A. Yes. As outlined in my direct testimony, PURPA rates should be
16 discounted for transaction costs associated with re-selling surplus power into the market.

17 **Q. Mr. Sterling recommends adopting a simple-cycle combustion turbine**
18 **(SCCT) for the calculation of capacity value in the IRP methodology. Do you**
19 **concur?**

20 A. Generally yes. Avista's IRP methodology does not use any single
21 resource to calculate capacity value. It is dependent on the PRiSM model, a software
22 package designed to select an optimal future resource portfolio. To determine the value
23 of a new QF resource, it is included in PRiSM and the variance in value becomes the

1 avoided cost of capacity. The avoided capacity cost can be a melding of the various
2 resources avoided; it might or might not include a SCCT.

3 In reality no single resource perfectly reflects actual avoided capacity. Avista
4 views its PRiSM capacity value method as superior to picking a single capacity resource
5 in that all resources of the Integrated Resource Plan preferred resource strategy are
6 considered. That said, Avista can algebraically adjust its PRiSM results to base the
7 capacity payment on a SCCT if the Commission so orders. Any adjustments from
8 PRiSM capacity results would be balanced by adjusting the energy component of the
9 PURPA rate. Although Avista is not opposed to Staff's proposal, our recommendation
10 would be to use the IRP Methodology; for Avista this means using PRiSM to calculate
11 capacity value.

12 **Q. Does Avista agree with Dr. McHugh that utility need should be**
13 **considered when determining avoided costs?**

14 **A. Yes.** Utilities should not pay for capacity when they do not require it.
15 Need should be considered for both published rates based on the SAR method, and for
16 rates calculated using the IRP methodology.

17 Further, Avista supports what it understands to be efforts by Staff to enhance the
18 SAR model to prevent small deficits outside of peak-need months from disqualifying a
19 QF resource from receiving capacity payments. This enhancement will benefit certain
20 drop-canal hydroelectricity projects and could benefit other resources that might perform
21 better (i.e., have higher on-peak contributions) in utility peak need months.

22 **Q. Do you agree with model corrections suggested by Staff witness Dr.**
23 **McHugh to the Avista-edited SAR model?**

1 A. Yes. Dr. McHugh's recommended corrections to Avista's edited version
2 of the SAR model are appropriate.

3 **Q. Do you agree with Mr. Sterling's recommended annual updates under**
4 **the IRP methodology?**

5 A. Generally, yes. Mr. Sterling advocates for updating IRP-methodology
6 assumptions annually for fuel price forecasts, load forecasts, and new contract
7 obligations. Avista agrees that these are the important assumptions to update between
8 IRP filings. To the extent that the Commission orders methodologies obligating utilities
9 to quantify renewable energy credit (REC) values in the avoided cost calculations, I
10 believe that REC prices also should be updated annually.

11 **Q. Mr. Sterling testified that he believes "it might be difficult to**
12 **implement" five year limits on contracting before commercial operation without**
13 **violating PURPA. Do you agree?**

14 A. No, I do not. My understanding of PURPA is that utilities generally are
15 obligated to purchase QF power, not provide a guarantee infinitely into the future.
16 Avista's proposal to cap contracting to five years before commercial operation is not a
17 limit on QF access to PURPA rates. Instead, limiting contracting to no more than five
18 years prior to commercial operation bounds utility customer risk. Such a limitation is
19 reasonable and it would not remove the utility obligation to purchase QF power; rather, it
20 would prevent speculative projects from languishing in the utility's resource portfolio
21 plan for extended periods of time.

22 **Q. Witness Sterling in his testimony questions whether your proposal to**
23 **obligate utilities to provide locked-in prices for two-years prior to commercial**

1 operation in a new PURPA contract is reasonable. He recommends five years. Do
2 you support his position?

3 A. Yes, but with reservations. Mr. Sterling explains at line 8 on page 34 of
4 his direct testimony that “few projects achieve commercial operation within two years of
5 contract execution, but most achieve it within five years.” In recent experience,
6 successful commercial operation even of projects larger than those qualifying under
7 PURPA tend more toward two years, not five. The 105 MW Palouse Wind project, for
8 example, will come online approximately 18 months after the developer executed a
9 contract with Avista; actual construction will occur over a period closer to 12 months.

10 Q. Did any of the other parties in this case object to limiting contracting
11 to two years?

12 A. Yes. Dr. Reading, on behalf of Clearwater Paper, J.R. Simplot, and
13 Exergy Development, explained on page 43 of his direct testimony, at line 7 that “...it
14 could take much longer than two years to complete construction alone.” In an attempt to
15 understand Dr. Reading’s statement that it could take much longer than two years to
16 complete construction, Avista submitted a production request to Exergy, requesting a list
17 of PURPA facilities that Exergy developed or participated in the development of during
18 the last five years and a detailed construction timeframe for each such facility.² In
19 response to Avista’s request, Exergy stated that “Exergy begins construction when land
20 rights are finally secured from the landowner...therefore the construction process takes
21 several years.” Yet Exergy’s own press releases do not support Dr. Reading’s testimony,
22 or Exergy’s response to Avista’s production request. Rather, Exergy’s own press releases

² Production Request 4(C) and 4(D) of Avista Corporation’s First Production Request to Clearwater Paper Corporation, J.R. Simplot Company and Exergy Development Group of Idaho (Production Request 4(C) and 4(D) were directed solely to Exergy).

1 demonstrate that projects can be built in less than two years. The press releases explain
2 that Exergy Development, one of the largest developers of QF power in Idaho over the
3 past few years, built 11 wind farms in Idaho over a period of approximately six months,
4 with construction beginning in late August 2010 and ending by February 2011. The two
5 press releases, and Exergy's responses to Avista's Production Request 4(C) and 4(D), are
6 included as Exhibit 101 to my testimony.

7 **Q. Are there any other examples supporting your position that locking in**
8 **prices two years prior to commercial operation is reasonable?**

9 A. Yes. Idaho Power's Langley Gulch, a much larger and complex project, will be
10 completed in approximately two years. The project began construction in June 2010 and
11 is now (in June 2012) producing test energy. Idaho Power has scheduled a ribbon cutting
12 ceremony for the plant in June and anticipates commercial operation in July 2012. If a
13 project of this magnitude can be completed in such a timeframe, certainly it is not
14 unreasonable to expect smaller and less complicated PURPA projects to meet a two-year
15 timeline. This said, Avista can support Commission Staff's five-year recommendation.
16 Where a project cannot meet this timeline, the utility should be able to recalculate QF
17 rates at its option.

18 **Q. Mr. Sterling supports PacifiCorp's proposal in this case that a tariff**
19 **be adopted specifying contracting procedures and rules for QF contracts and**
20 **recommends that each of the utilities be directed to prepare similar tariffs to**
21 **PacifiCorp's Schedule 38, and that a separate docket be opened for review and**
22 **comment on the specific details that would be contained in each proposed tariff. Do**

1 **you support the adoption of a tariff specifying contracting procedures and rules for**
2 **QF contracts?**

3 A. Yes. I agree that a tariff similar to PacifiCorp's Schedule 38 could be
4 helpful both to the utilities and project developers, and could limit future complaints
5 before this Commission. If such a proposal is adopted, each utility should be allowed to
6 develop a tariff with terms specific to its needs. Accordingly, I support Mr. Sterling's
7 recommendation that a separate docket be opened in which each utility submits a
8 proposed tariff for review and comment.

9 **Q. Commission Staff witness Dr. McHugh recommends "using resource-**
10 **specific values for determining capacity payments." Do you concur?**

11 A. Yes. QF developer compensation should be capped at utility avoided
12 costs. Given that the capacity contributions of resources can differ greatly, it is important
13 to recognize the actual capacity contribution of each resource when calculating PURPA
14 rates, both published and through the IRP methodology.

15 **Q. Mr. Sterling recommends that the Commission deem the**
16 **environmental attributes (RECs) associated with QF resources as owned by the**
17 **purchasing utility, but that the avoided cost rate calculation should be adjusted to**
18 **reflect this assignment. Do you agree with his position?**

19 A. No. Avista did not take a position on REC ownership in its direct
20 testimony in this proceeding. However, to the extent the Commission chooses to assign
21 RECs to utilities, Avista opposes adjusting (i.e., increasing) avoided cost rates in
22 exchange for obtaining the RECs. It is my understanding that under PURPA it is not
23 appropriate to include the value of RECs in avoided cost rates. Moreover, such an

1 adjustment could create an opportunity for QF developers to arbitrage the REC value to
2 the detriment of utility customers. Further, the market for RECs is very volatile and is
3 not liquid or transparent.

4

5 *Testimony of Twin Falls Canal Company and North Side Canal Company (TFCNSC)*

6 **Q. Please summarize your views on the direct testimony of the TFCNSC**
7 **companies.**

8 A. Table R2 summarizes the positions of the TFCNSC, and Avista's
9 responses to them. Avista has not re-visited those positions advocated by TFCNSC
10 where it already has addressed them above in response to Staff positions.

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Table R2 – Summary of Avista Responses to TFCNSC

No.	TFCNSC Position	Avista Position
1	Limitations on adjustments in IRP methodology	Oppose
2	Use forwards for gas prices	Oppose
3	LOLP method to determine utility need	Oppose
4	Levelize capacity payments over contract term	Support, with modification
5	Pay capacity only during peak months and hours	Oppose
6	Capacity payment for "follow-on" QF contracts	Oppose, but recommend an alternative
7	Mark-to-market delay security damages	Oppose

14

15 **Q. Witness Schoenbeck, on behalf of TFCNSC, recommends limiting**
16 **adjustments to the IRP methodology between IRP publications. Do you agree?**

17 A. No. The IRP methodology is just that, a methodology. To the extent that
18 assumptions affecting the results of the IRP methodology change between IRPs, those
19 assumptions should be modified. Changes should not be limited to gas prices and QF

1 contracts. Other considerations should be made, including but not limited to non-QF
2 contracts and load forecast changes.

3 **Q. Should gas prices used in setting avoided cost rates be tied exclusively**
4 **to forward contracts and extended as recommended by Mr. Schoenbeck?**

5 A. No. Utilities use various methods to estimate future natural gas prices.
6 Avista, for example, melds short-term forward prices with third-party long-term
7 fundamentals-based natural gas price forecasts for its long-term plans. Avista sees no
8 reason to change this approach and create another set of analyses limiting its ability to
9 estimate natural gas prices. As stated earlier in my testimony for the SAR methodology,
10 Avista supports Commission Staff in the use of the EIA Mountain natural gas price
11 forecast.

12 **Q. Do you support the TFCNSC recommendation that a LOLP**
13 **methodology be used to determine utility need?**

14 A. No. Avista continues to evaluate the benefits of loss-of-load-probability
15 (LOLP) analysis for use in its integrated resource planning processes. However, it has
16 significant concerns with its application. Specifically, LOLP analysis is very sensitive to
17 the assumed availability of market purchases and sales. Even fairly modest limits on
18 market availability will affect utility positions, thereby opening the utility up to potential
19 criticism on this key LOLP assumption. Avista believes that resource need should be
20 determined using methods from the IRP.

21 **Q. Mr. Schoenbeck advocates levelizing capacity payments over the term**
22 **of the QF contract. Do you agree?**

1 A. Yes, but not exactly as Mr. Schoenbeck proposes. QF developers
2 currently have the option to levelize their rates over the term of their contracts, but to do
3 so they must protect customers by posting liquidated damages. The amount of liquidated
4 damages is based on the mark-to-market difference between current forward prices and
5 the contract price. If the QF developer is not willing or able to post liquidated damages,
6 the developer can elect “non-levelized” payments tied to the anticipated annual avoided
7 costs of the utility.

8 I understand Mr. Schoenbeck’s desire to levelize capacity payments over the
9 contract term, especially in light of the potential that no capacity payments will be made
10 in early contract years where a utility is surplus and resource ownership costs generally
11 are higher; however, any such levelization should occur only with the backing of
12 sufficient liquidated damages to the extent that utility customers are paying higher prices
13 in earlier years relative to true avoided costs.

14 **Q. Does Avista support Mr. Schoenbeck’s proposal to make capacity**
15 **payments only during utility peak months and hours?**

16 A. No. Although this method likely would benefit utility customers in that
17 QF developers would not be paid during periods of outages in peak months and times, the
18 complexity of implementing Mr. Schoenbeck’s proposal would, in my opinion, outweigh
19 the benefits. Utility peak planning looks at generic peak periods that likely would be
20 difficult to translate to specific hours or months. The Avista proposal, as described in my
21 direct testimony, provides similar value without requiring the complication of identifying
22 specific months and hours.

1 **Q. Does Avista agree with TFCNSC that “follow-on” QF contracts**
2 **should receive capacity payments in all years as described in Mr. Schoenbeck’s**
3 **testimony?**

4 A. No, but Avista could support a modification of Mr. Schoenbeck’s
5 proposal. Mr. Schoenbeck believes that any existing QF opting to re-contract with the
6 utility should receive capacity payments. Presumably this is because he believes
7 exclusion of the QF would cause the utility’s load and resource balance to immediately
8 become deficient absent its deliveries. This might or might not be true, depending on the
9 net position of the utility’s load and resource balance and the size of the QF resource.
10 Because it is possible that, even without the capacity contribution of an existing QF
11 contract, the utility would not need capacity, capacity payments should not be granted
12 unilaterally when a new contract is signed. Instead, the utility load and resource balance
13 should be modified for the loss of the QF contract, and the capacity payments based on
14 the adjusted position. This approach ensures that utility customers do not overpay for
15 capacity, and that QF resource capacity is not double-counted to the detriment of the QF.

16 **Q. Do you support Mr. Schoenbeck’s mark-to-market proposal for delay**
17 **security?**

18 A. No. As described in more detail in my direct testimony, this method has
19 the potential to weaken developer performance incentives. A mark-to-market method
20 would allow a developer to avoid posting delay security where market prices are high
21 relative to the PURPA rates. In this case there is less incentive to complete a project, and
22 other factors (e.g., falling wind turbine prices) might cause the developer to delay its
23 project. This would run counter to the utility’s need to have a QF developer perform.

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Testimony of Clearwater Paper, JR Simplot, and Exergy Development Group

Q. Please summarize your views on the direct testimony of Clearwater Paper, JR Simplot, and Exergy Development Group (CP/JRS/EDG).

A. Already I have addressed most of CP/JRS/EDG positions in my testimony above; I will not repeat myself. I do, however, wish to respond to a few additional issues raised in Dr. Reading's direct testimony.

Q. On page 19, Dr. Reading asserts that by bifurcating capacity payments from energy payments, as you advocate in your direct testimony, you are "solving problems that do not exist." Do you agree?

A. No. For example, wind QFs generally do not contribute during system peaks. Accordingly, developers of such projects today are inappropriately benefitting from a PURPA rate methodology that ignores the capacity contribution of the QF resource when determining avoided cost. However, and as my direct testimony and that of others in this case explain, without recognizing the inherent differences in capacity contribution between resources, the avoided cost rates (either published or calculated by the IRP methodology) do not reflect the actual avoided costs associated with a specific QF. Table 4 from my direct testimony illustrates how wind developers are being significantly over-compensated while other project types, such as drop-canal hydroelectricity, are being under-compensated for their capacity contributions. Summary statistics from that table are shown below in Table R3.

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Table R3 – Published QF Rate Comparison³

Line	Item	SAR	Geo	Hydro	Solar	Wind	Note
1	Energy Payment (\$/MWh)	45.45	45.45	45.45	45.45	45.45	from present Avista schedule
2	Capacity Payment (\$/MWh)	25.51	27.61	69.03	36.35	3.56	assumption
3	Less Integration (\$/MWh)	-	-	-	(6.50)	(6.50)	line 1 * line 4 * 8,760 hrs
4	Total Payment (\$/MWh)	70.96	73.06	114.48	75.30	42.51	SAR line 6 * line 2 / SAR line 2
5	Overpayment (\$/MWh)	-	(2.10)	(43.52)	(4.34)	28.45	SAR line 4 less line 4
6	Overpayment %	0.0%	-3.0%	-61.3%	-6.1%	40.1%	line 5 / line 4

3

4 Wind projects are being over-compensated by approximately 40%. This
5 compares to drop-canal hydro being under-compensated by approximately 60%.
6 Geothermal and solar are being under-compensated as well. Table R3 shows that wind
7 developers are the beneficiaries of the existing published rate structure at the expense of
8 retail customers. Table R3 makes it clear that there is a problem with making capacity
9 payments to resources that provide little or no capacity; I am hopeful that this proceeding
10 will bring PURPA rates more in-line with true avoided costs by bifurcating capacity and
11 energy payments.

12 **Q. Beginning at line 3 of page 32 of Dr. Reading asserts that utility IRP**
13 **methodology rates “are significantly lower than the costs of building the utilities’**
14 **own resources.” On page 34 he presents a table in support of his assertion. Do you**
15 **have any concerns with this table and Dr. Reading’s conclusions based on it?**

16 **A. Yes. To purportedly show how unfair the utilities have been to QF**
17 **developers, Dr. Reading compares an updated (i.e., with current natural gas price**
18 **estimates) IRP methodology-based rate with dated rates and resource costs calculated**
19 **when natural gas prices were much higher. Obviously, given the significant decrease in**
20 **natural gas prices over the past two years, such a comparison is misleading at best.**

³ From Table 4 of Kalich Direct Testimony in GNR-11-03, at page 25, line 2.

1 Avista submitted Production Request No. 1 seeking support for Dr. Reading's
2 assertion in direct testimony at page 7, line 7, that the "SAR methodology has been
3 robust ... and has produced avoided cost rates that have proven to be remarkably accurate
4 in hindsight."⁴ (Emphasis added.) Dr. Reading also explained, beginning at line 20 of
5 page four of his testimony, that "the SAR methodology has been a successful, transparent
6 and effective method for estimating a utility's avoided cost rates." The CP/JRS/EDG
7 response to Production Request No. 1 provided no evidence to support Dr. Reading's
8 assertions, but instead stated that it is enough to take him at his word because he has
9 "almost three decades of experience or involvement in PURPA rate cases before the
10 Idaho Commission, and an even longer time period involved in electric utility rate cases
11 before the Idaho Commission." The response of CP/JRS/EDG to Avista's Production
12 Request No. 1 is attached hereto as Exhibit 102.

13 In addition to CP/JRS/EDG's response to Production Request No. 1,
14 CP/JRS/EDG's response to Avista's Production Request No. 2 also failed to support Dr.
15 Reading's statements, but makes clear that CP/JRS/EDG was aware of the large fall in
16 natural gas prices and the commensurate overpayment that would result absent updating
17 natural gas prices when the table was created.⁵ When asked whether Dr. Reading's table
18 on page 34 included updated natural gas prices, the response was simply "no."
19 CP/JRS/EDG's response to Production Request No. 2 is attached hereto as Exhibit 103.

20 Falling natural gas prices is one driver of the issues in this case. Using dated
21 input assumptions, such as high natural gas prices, puts utility customers at great risk.

⁴ Production Request 1 of Avista Corporation's First Production Request to Clearwater Paper Corporation, J.R. Simplot Company and Exergy Development Group of Idaho.

⁵ Production Request 2 of Avista Corporation's First Production Request to Clearwater Paper Corporation, J.R. Simplot Company and Exergy Development Group of Idaho.

1 Given the misleading nature of Dr. Reading's table, the Commission should summarily
2 reject both it and all arguments based on it.

3 **Q. At page 41, line 2, Dr. Reading attempts to use the Company's**
4 **Reardan project to support his position that delay damages are unfair to QF**
5 **developers. Do you have any concerns with this comparison?**

6 A. Yes. Dr. Reading implies that Avista's Reardan development is a proxy
7 for QF development. In other words, his position is that Reardan not being built is
8 somehow the same as a QF developer who signed a contract for deliveries, but then did
9 not complete its project. This is an apples and oranges comparison at best. Avista
10 customers never were obligated to purchase the Reardan project; such obligation
11 would/could occur only after a prudence review by the Commission. Customers also
12 only would pay the actual costs of Reardan were it completed, unlike QF developers who
13 can arbitrage PURPA rates to make a profit.

14 Dr. Reading also misuses the Reardan project to support his desire to free QF
15 developers from honoring their delivery obligations with delay security. In another
16 misunderstanding of what defines the beginning of construction, he implies that Reardan
17 construction began in 2008 by referencing an accounting order allowing a carrying
18 charge on investments in the Reardan site.⁶ Construction never was started on Reardan.

19 **Q. On page 65, beginning at line 10, Dr. Reading recommends that the**
20 **Commission adopt a non-firm standard tariff for QF power. Do you have any**
21 **comments on this recommendation?**

⁶ Dr. Reading's first misunderstanding was illustrated earlier in my testimony by documenting his client's (Exergy) own press releases on its construction timelines of recent Idaho wind projects. These press releases support Avista's position that QF construction can be completed in less than two years.

1 A. Yes. As explained in earlier testimony, Avista supports a separate
2 proceeding to adopt a tariff similar to PacifiCorp's proposed Schedule 38 that would
3 define QF contracting procedures, but does not believe such work should be a part of this
4 case. Further, it is important to point out that, contrary to Dr. Reading's testimony,
5 Avista's Schedule 62 contains a standard offer for non-firm QF power.

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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REVIEW OF PURPA QF CONTRACT)
PROVISIONS INCLUDING THE)
SURROGATE AVOIDED RESOURCES)
(SAR) AND INTERATED RESOURCE) EXHIBIT NO. 101
PLANNING (IRP) METHODOLOGIES FOR)
CALCULATING AVOIDED COST RATES) CLINT G. KALICH
_____)

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

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**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE COMMISSION'S)
REVIEW OF PURPA CONTRACT)
PROVISIONS INCLUDING THE)
SURROGATE AVOIDED RESOURCE (SAR))
AND INTEGRATED RESOURCE PLANNING)
(IRP) METHODOLOGIES FOR)
CALCULATING PUBLISHED AVOIDED)
COST RATES)

Case No. GNR-E-11-03

RESPONSE TO AVISTA
CORPORATION'S FIRST
PRODUCTION REQUEST TO
CLEARWATER PAPER
CORPORATION, J.R. SIMPLOT
COMPANY AND EXERGY
DEVELOPMENT GROUP OF IDAHO

COMES NOW, Clearwater Paper Corporation, J. R. Simplot Company and Exergy Development Group of Idaho and hereby responds to the First Production Request of Avista Corporation. Dr. Don Reading is available to respond to questions about or sponsor these responses.

REQUEST NO. 4: On page 43, beginning at line 7, of Dr. Reading's direct testimony, Dr. Reading explains that "for many types of generation projects, it could take much longer than two years to complete construction alone."

A Based on the statement above are the Companies stating categorically that solar and projects [sic] cannot be constructed in two years or less?

B Do the Companies believe that the construction of different sized wind and solar QFs might take less or more time for construction? Please discuss the impacts on construction timelines of varying sizes of these two resources: 100 kW, 1 MW, 10 MW, 100 MW.

C **This request is directed only to Exergy.** Please provide a list of each PURPA facility in Idaho that Exergy has developed or participated in the development of during the last five years.

D **This request is directed only to Exergy.** For each PURPA facility listed in the response to subpart a of this request, please provide a detailed construction timeframe for the facility, including when the facility commenced major construction and when it went commercial. Where any construction timeframes exceed two years, please provide a detailed description of the causes of the delay.

E Langley Gulch will be constructed in approximately two years. Do any or all of the Companies acknowledge that the construction of a large resource like Langley Gulch might be more complicated and take longer to obtain commercial operation than a PURPA resource? Please explain.

F Is it any of the Companies' positions that a firm contract for the sale of the output of a PURPA facility with pricing is required before any development expenses are incurred or any development timeline can commence for a PURPA facility? If so, please list which of the Companies holds such position and explain each such Company's rationale for its position.

G Is it any of the Companies' positions that a firm contract for the sale of the output of a PURPA facility with pricing is required before any preliminary financing efforts for such facility are completed? If so, please list which of the Companies holds such position and explain each Company's rationale for its position.

RESPONSE TO REQUEST NO. 4:

A The Companies are not so stating absolutely and utterly without exception or qualification.

B Yes. No such analysis has been conducted.

C Camp Reed

Tuana Gulch

Oregon Trail

Thousand Springs

Salmon Falls

Yahoo Creek

Pilgrim Stage Station

Payne's Ferry

Milner Dam

Burley Butte

Golden Valley

D Exergy begins construction on each wind project when the land rights are finally secured from the landowner. That is when detailed wind resource measurement may begin which takes at least one full year to satisfy lenders. That is also when environmental studies are begun. Therefore the construction process takes several years typically.

Camp Reed: construction commenced October, 2007 commercial operation December 2010.
Tuana Gulch: construction commenced November 2005 commercial operation December 2010.
Oregon Trail: construction commenced June 2005 commercial operation December 2010.
Thousand Springs: construction commenced November 2005 commercial operation December 2010.
Salmon Falls: construction commenced August 2007 commercial operation December 2010.
Yahoo Creek: construction commenced September 2005 commercial operation December 2010.
Pilgrim Stage Station: construction commenced November 2005 commercial operation December 2010.
Payne's Ferry: construction commenced November 2002 commercial operation December 2010.
Milner Dam: construction commenced April 2007 commercial operation December 2010.
Burley Butte: construction commenced May 2007 commercial operation December 2010.
Golden Valley: construction commenced September 2007 commercial operation December 2010.

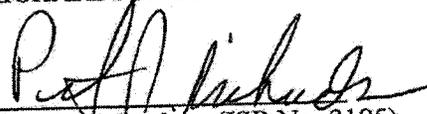
E Langley Gulch was not constructed in approximately two years. Idaho Power had placed the order for the turbine well before the summer of 2009 when the Commission held hearings on that plant. It is now the summer of 2012 and Langley Gulch has yet to achieve commercial operation. That said, it is true that all projects present their own unique challenges and opportunities and will have their own timeframe in which they can be brought to commercial operation.

F Unless you are pursuing a hobby, without seeking serious wall street financing, every rational project developer must demonstrate adequate debt service and/or return on equity ratios to have a viable project. Why would a developer incur development expense if he didn't believe

he had a certain market for his project's output? This is especially true for the developer of a PURPA project where the only buyer for his product is historically unmotivated (and sometimes hostile) to the very concept of doing business with him.

G Again if one is building a hobby project then you don't worry about financing or financial performance. If you are building a project that needs project financing from a bank or institutional lender you need to show them the power purchase agreement with prices that meet the operating margin requirements of the lender or the project will not be developed.

RICHARDSON AND O'LEARY, PLLC



Peter J. Richardson (ISB No: 3195)

Gregory M. Adams (ISB No. 7454)

Attorneys for Clearwater Paper Corporation,

J. R. Simplot Company and

Exergy Development Group of Idaho



December 30, 2011 – Boise, Idaho. Exergy Development Group, one of the largest independent renewable energy companies in the USA, commenced construction in November and December on 152 MW of wind parks to be installed across Idaho and Minnesota. With Exergy's deployment of their 400 MW Texas project in 2012, this shall bring Exergy's total built wind park capacity to 761 MW in the USA.

In Idaho, Exergy is installing 116 MW across Twin Falls, Lincoln and Bingham counties. The remaining 36 MW are being installed in Faribault County, Minnesota. The 152 MW produced by these projects will produce the annual energy equivalent of approximately 40,500 residential homes.

As in the past, Fagen, Inc. is Exergy's primary EPC and Balance of Plant Contractor on the set of 7 projects. On-site Owner's Engineer and Construction Manager is BCL, Inc.

"We have made substantial progress on the project sites in both states," says Dustin Shively, lead Project Engineer. "Before the end of 2011, foundations shall be poured and completed in Minnesota, and we shall have all of the foundations excavated, site work, roads, and grading completed on the Idaho project sites. We shall begin erecting turbines in the second quarter of 2012 as weather permits and all sites shall be fully operational by the fall."

Exergy has a long history in the renewable energy sector since 2001. Last year they developed and installed, in partnership with GE Capital, Atlantic Power, and Reunion Energy, the largest wind project in Idaho's history. Exergy has work in progress in 17 states across the USA and 3 foreign countries. Exergy also has four anaerobic digesters, and biomass projects scheduled for Arkansas and Kansas and has partnered on a 20 MW solar project.

For more information, please contact Elizabeth Woolstenhulme at elizabeth@exergydevelopment.com.



February 23, 2011

For immediate release

Company to add millions of dollars to Idaho economy

Boise - An Idaho developer of renewable-energy projects has released a study showing a \$120 million boost to the state's treasury from wind-energy projects set to begin construction.

The study was first reported last week, but is being made available today to the general public. The study was commissioned by Exergy Development and was completed by John Church, a well-known and respected Idaho economist who has worked for Boise State University and Idaho Power.

"This study shows the clear, positive economic impact from affordable, clean, homegrown Idaho energy," Exergy CEO James Carkulis said. "In addition to hundreds of jobs and a direct infusion of over \$50 million into rural Idaho communities, Exergy projects will help the state meet its long-term budget needs over the coming decades."

According to Church's study, construction of an additional 300 megawatts of wind-energy generation by Exergy Development will:

- Create 650 additional Idaho jobs during two years of construction due to the direct economic impacts associated with planning, analysis, evaluation and building, plus secondary economic impacts that will occur as a result;
- Mean 120 ongoing jobs each year for the next 25 years of the project, most of them in rural communities in need of ongoing economic development;
- Provide nearly \$2.8 million in additional tax revenue to the state of Idaho during the two-year construction phase, and an additional \$120 million in revenue over a 25-year period.

Exergy is the state's largest developer of renewable energy, and while it has projects throughout the northwest the company is headquartered in Boise. Exergy projects - completed in partnership with GE Energy Financial Services, Atlantic Power, and Reunion - near the communities of Hagerman and Burley (came online last month) and were instantly

Exergy Development Group 802 W Bannock, 12th Floor Boise, ID 83702 P 208.336.9793
F 208.336.9431



the largest alternative energy project in Idaho. The wind farms have 122 turbines and are capable of providing enough power for nearly 40,000 Idaho homes.

The company has six new projects approved and prepared for construction in 2011. If completed, the projects will make available to Idaho businesses and consumers each year approximately 867,000 megawatt hours of energy.

"We appreciate the great working relationship we have with the Governor and with legislators," Carkulis said. "Gov. Otter's leadership on renewable energy and the strong push to assist this growing and important Idaho industry sector means Exergy projects will continue to benefit the Idaho economy."

More on Exergy Development Group:

Exergy is one of the largest independent renewable energy developers in the U.S. The company develops projects from concept to commercial operation, with a focus on environmental responsibility and economic success for local communities. The company's focus on new and advanced technologies has resulted in the company assembling a queue of projects totaling over 4,000 megawatts of renewable energy for the Western and Midwestern United States.

For more information or to arrange interviews, please contact John Foster at Strategies 360: 208-559-3547 or johnf@strategies360.com

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REVIEW OF PURPA QF CONTRACT)
PROVISIONS INCLUDING THE)
SURROGATE AVOIDED RESOURCES)
(SAR) AND INTERATED RESOURCE) EXHIBIT NO. 102
PLANNING (IRP) METHODOLOGIES FOR)
CALCULATING AVOIDED COST RATES) CLINT G. KALICH
)

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

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IDAHO PUBLIC UTILITIES COMMISSION**

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REVIEW OF PURPA CONTRACT
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COMES NOW, Clearwater Paper Corporation, J. R. Simplot Company and Exergy
Development Group of Idaho and hereby responds to the First Production Request of Avista
Corporation. Dr. Don Reading is available to respond to questions about or sponsor these
responses.

REQUEST NO. 1: On page 7, beginning at line 7 of the direct testimony of Dr. Don Reading, Dr. Reading states: "The SAR methodology has been robust through all of those changes and has produced avoided cost rates that have proven to be remarkably accurate in hindsight."

- A Please provide all analysis and data supporting this statement.
- B Please provide the Companies' position on whether Idaho's published avoided cost rate rates available to wind PURPA developers from January 1, 2010 through December 14, 2010 were "remarkably accurate in hindsight."
- C Please explain the basis for the response(s) to subpart b of this request and provide any analysis or data supporting such response(s).

RESPONSE TO REQUEST NO. 1:

- A Dr. Reading's statement is based on his almost three decades of experience of involvement in PURPA rate cases before the Idaho Commission, and an even longer time period involved in electric utility rate cases before the Idaho Commission. No studies were necessary for Dr. Reading to express his expert opinion on electric utility rates and PURPA rates in particular.
- B Dr. Reading's observation was not limited to a specific point in time. "In hindsight" has a broader meaning than just eleven and a half months in 2010. Avoided cost rates fluctuate over time in both directions – up and down.
- C None. The Companies rely on Dr. Reading's expert opinion.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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_____)

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

REQUEST NO. 2: On page 34 of the direct testimony of Dr. Don Reading, Chart 1 is used to explain the difference between the proposed Idaho IRP method rates in this case and those for the current Idaho IRP method, the Idaho 2011 IRP, and the Langley Gulch project.

- A Please provide all analysis supporting the data contained in Chart 1 in an Excel spreadsheet with all formulas intact.
- B Does the data used to create Chart 1 include any adjustments to the gas prices to reflect current prices?
- C If the answer to subpart b is "no", please explain why no adjustment to gas prices was used in preparing Chart 1.
- D If the answer to subpart b is "yes," please explain and provide any supporting analysis and data for any adjustment to the gas prices that was made in preparing Chart 1.
- E If the answer to subpart b of this request is "no", please explain the purpose of Chart 1 and its relevance to this proceeding.

RESPONSE TO REQUEST NO. 2:

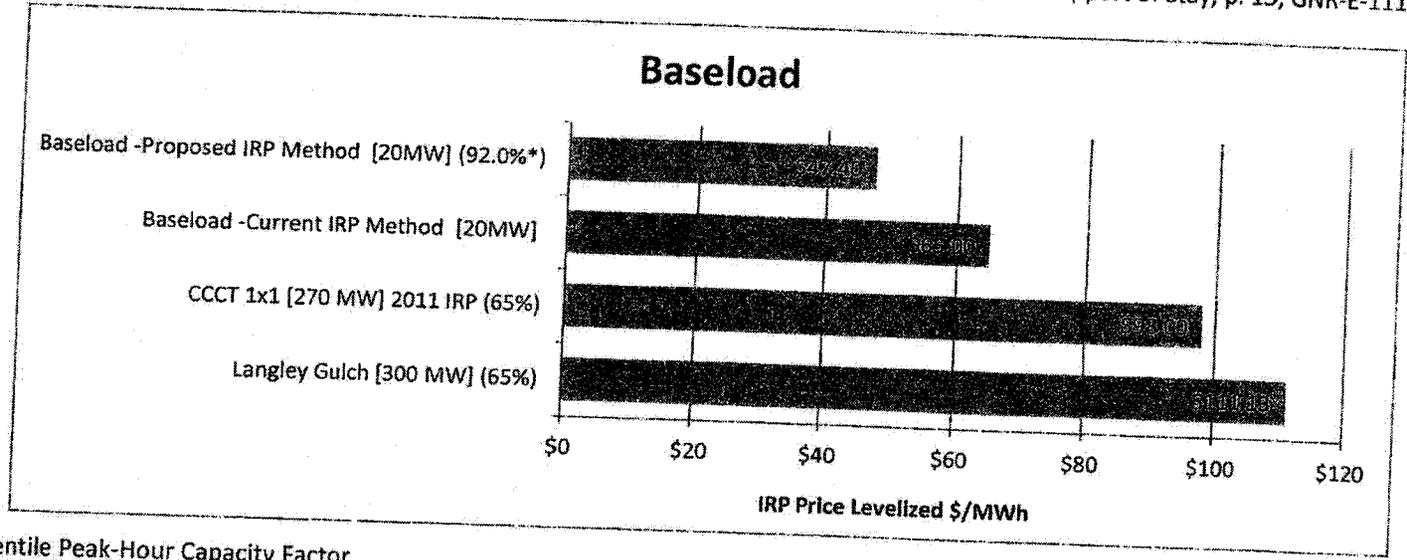
- A Please see the attached spreadsheet.
- B No.
- C The per \$/MWh avoided costs are taken from either the filings of Idaho Power or the Idaho Commission Staff. One would need each of the separate models used and rerun with the same gas price. The values were selected as being presented by Idaho Power within the same relatively close time period. The exception being Langley Gulch that the Company is currently being put into rates, so the value used is the one presented to the Commission when Idaho Power requested the CPCN for Langley Gulch. The implication of the question appears to presuppose natural gas prices are the only impact on the avoided cost rates. Many other assumptions and

factors can impact the calculation of avoided costs. For example the Idaho Commission Staff stated that the Langley Gulch capacity factor in more recent runs is not 65% but rather 49%, which would impact the cost of capacity per MWh; By contrast, the Langley Gulch CCCT, the only CCCT in Idaho Power's portfolio, shows an annual capacity factor ranging from 36 to 49 percent, with a 20-year average of 49 percent. [Comments of Commission Staff, IPC-E-11-26, January, 2012, p. 6.]

D N/A

E As stated in Dr. Reading's testimony following Table 1; While it might be argued each of four cost estimates are not precisely comparable, the order of magnitude of the difference between the utility's baseload load plant currently coming on line, and what it proposes to offer a baseload QFs, is so dramatically different it calls into question the claims that the proposed method is a realistic estimate of the Company's avoided cost. It is also important to note all four of these estimates can be considered falling within the same time frame and are therefore comparable. [Direct Testimony of Don Reading, IPC-E-11-03, p. 34.]

Resource Type (Capacity Factor)	Levelized Cost \$/MWh	Source
Langley Gulch [300 MW] (65%)	\$111.13	Staff Comments, IPC-E-09-34 (Neal Hot Springs), 5/3/2010
CCCT 1x1 [270 MW] 2011 IRP (65%)	\$98.00	IPCo 2011 IRP, p. 47; without carbon adder of \$10 \$/MWh
Baseload -Current IRP Method [20MW]	\$65.00	IPCo Memorandum in Support of Stay, p. 15, GNR-E-111-03
Baseload -Proposed IRP Method [20MW] (92.0%*)	\$47.40	IPCo Memorandum in Support of Stay, p. 15, GNR-E-111-03



* 90th Percentile Peak-Hour Capacity Factor