R. Blair Strong
Paine, Hamblen, Coffin,
Brooke & Miller LLP
717 West Sprague Avenue, Suite 1200
Spokane, WA 99201-3505
Telephone: (509) 455-6000
Facsimile: (509) 838-0007

Attorneys for Avista Corporation

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A PETITION FILED BY IDAHO POWER COMPANY FOR AN ORDER DETERMINING OWNERSHIP OF THE ENVIRONMENTAL ATTRIBUTES ASSOCIATED WITH A QUALIFYING FACILITY UPON PURCHASE BY A UTILITY OF THE ENERGY PRODUCED BY A QUALIFYING FACILITY	CASE NO. IPC-E-04-2 COMMENTS OF AVISTA CORPORATION

Idaho Power Company petitioned the Idaho Public Utilities Commission on February 5, 2004, to issue an order determining ownership of marketable environmental attributes ("Renewable Energy Credits" or "RECs") associated with PURPA generating facilities ("QF's"), when Idaho Power enters into long-term fixed rate contracts to purchase the energy produced by QFs. The Commission on February 20, 2004, invited written comments or protests with respect to the petition. Avista Corporation ("Avista"), respectfully submits the following comments.

I. INTRODUCTION

Idaho Power Company's petition seeks an order applicable to those situations when Idaho Power enters into long-term, fixed-rate contracts with a QFs. Neither Idaho

Power's petition, nor the notice issued by the Commission, expressly suggest that any order issued by the Commission should apply to any company providing electric utility service in Idaho other than Idaho Power. However, Avista is concerned that any order issued herein will be precedent with respect to other companies. Therefore, Avista submits these comments to recommend that the order requested by Idaho Power should expressly not apply to Avista Corporation. In the alternative, if the Commission deems it necessary to formulate a policy statement on this issue that is applicable to all regulated electric utility companies in Idaho, the Commission should declare that ownership of RECs associated with renewable resources will be vested or conveyed to the purchasing utility company as a condition of a QF receiving a contract from the purchasing utility company at Commission determined and published avoided cost rates.

II. COMMENTS

Avista Corporation agrees with Idaho Power that QFs located in Idaho receive a benefit and incentive when they contract to sell to a utility at a long-term, fixed-rate contract. The QF developers receive the benefit of the utility's credit standing, and the likely certainty of a steady continued cash flow over a long period of time. However, Avista submits that ownership of RECs should remain with the purchasing utility company when the utility company is compelled to purchase power from the QF pursuant to Commission determined and published avoided cost rate schedules.

The foundation principle of PURPA as implemented in Idaho is that the power that a utility purchases at avoided cost rates from QF projects is intended to displace power from resources that the utility otherwise would have had to construct or purchase. The utility's customers are intended to be indifferent from a cost standpoint as to whether the power supplied to them originates from a QF purchase or a utility owned resource. Therefore, if a utility company purchases power at published avoided cost rates from a QF, then the utility and its customers should incur no more costs, and receive no less economic benefit than had the utility owned the generating unit and operated it for its customers.

Unforeseen revenues associated with generating units that supply retail electric customers generally accrue to the benefit of retail customers through the regulated rate structure. In this respect, revenues from RECs are like unexpected revenues derived from sales of electric power that are surplus to retail requirements. These revenues ultimately flow through to the benefit of the retail customers. The benefits of RECs associated with utility owned resources will also flow through to the benefit of retail customers. Monetary benefits of RECs associated with power sold by QFs at Commission determined avoided costs rates should similarly flow through to the benefit of retail customers.

Although the exact nature of RECs is yet to be determined in the State of Idaho, their value will likely be proportional to generation output of the renewable resource facilities. A purchasing utility normally expects to acquire all of the attributes and value of the output that it purchases from a QF pursuant to a published avoided cost rate. As an example, although reactive power ("VARs") is seldom assigned a separate economic value or separately measured, reactive power is an attribute of the QF that the Company acquires as an incident of the power purchase and sale. If the utility does not acquire all the value of the QF output pursuant to published avoided cost rates, then there is not an equivalence of value between a QF project and a comparably sized utility owned resource.

QFs of a certain size are automatically entitled to sell their output to regulated utility companies at Commission determined avoided cost rates. However, utility customers should not pay more, or receive less value, from the output of these QF projects than they would from utility owned resources. Utility customers will receive less value from QF purchases if the monetary benefit of RECs is assigned to the project developer instead of flowing with the power to the benefit of utility customers..

The wholesale market for RECs is not nearly as liquid at this time as is the wholesale market for electricity. However, one may speculate that the value of RECs may increase significantly concurrent with societal concerns about global warming. If there is a significant and unexpected increase in the wholesale market value of RECs, then the utility's rate payers should receive the benefits of the increase, just as they will benefit from RECs associated with utility owned resources. Although a QF developer who retains RECs may be unexpectedly advantaged by an increase in their value, the corresponding disadvantage is that utility customers will not have benefited from the same unexpected increase in value of RECs associated with utility owned resources that might have been developed, but for the QF acquisition. It is consistent with the principles of PURPA that the monetized value of renewable resource development of QFs be retained by the utility customers, in the same manner that the customers would benefit from the monetized value of RECs associated with utility generation.

Finally, QF development will not be significantly deterred if REC's are retained by utilities that purchase power from QFs at published avoided cost rates. QFs are not precluding from taking their electricity output and RECs to the wholesale markets, if they perceive that the wholesale markets offer greater rewards than they will receive at Commission determined avoided cost rates. If QF developers believe that they will earn more profit on the unregulated whole sale market, they will always have the option of selling their project output there, because there is no requirement that they offer their project output to any particular buyer. On the other hand, the utility customers will always bear the costs associated with mandated purchases from QFs at Commission determined avoided cost rates, because utilities are required to offer to purchase such output. The utility and its customers should receive the monetary benefits of RECs associated with mandated QF purchases, when the utility has no discretion to negotiate the purchase rates.

The monetary value of RECs are not preserved to the utility and its customers, if the QF developer retains ownership of the RECs, even if the QF developer assigns a right of first refusal to the utility. The utility and its customers should be able to benefit from any increase in the value over time of RECs, irrespective of whether the RECs are associated with utility owned generation, or are acquired by purchase from a QF at published avoided cost rates.

III. SERVICE OF FURTHER PLEADINGS

Service of further pleadings, and other documents relating to this proceeding should be served upon the following:

H. Douglas Young
Avista Corporation
P.O. Box 3727
Spokane, WA 99220-3727

Telephone: (509) 495-4521
Facsimile: (509) 495-8856
E-mail: doug.young@avistacorp.com

and

R. Blair Strong
Paine, Hamblen, Coffin, Brooke & Miller LLP
717 West Sprague Avenue, Suite 1200
Spokane, WA 99201-3505

Telephone: (509) 455-6000
Facsimile: (509) 838-0007
E-mail: rbstrong@painehamblen.com

IV. CONCLUSION

Avista Corporation respectfully requests that the order requested by Idaho Power, if it is issued by the Commission, be limited in effect to Idaho Power.

In the alternative, if the Commission deems it necessary to make a general policy statement that is applicable by implication or precedent to Avista Corporation, then Avista recommends that the Commission issue an order declaring that as a precondition for a QF to be entitled to sell power at published avoided cost rates to regulated utility companies in Idaho, the QF shall agree that the purchasing utility company shall be deemed to be the owner of RECs from the QF.

RESPECTFULLY SUBMITTED this 18th day of March, 2004.

Paine, Hamblen, Coffin, Brooke & Miller LLP

By: R. Blair Strong

R. Blair Strong
Attorneys for Avista Corporation

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 18th day of March, 2004 I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Ms. Jean Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83720-0074

_______ U.S. Mail
_______ Hand Delivery
_______ Facsimile
XXXX Overnight Mail
_______ Electronic Mail

Randy C. Allphin
Contract Administrator
Idaho Power Company
P.O. Box 70
Boise, ID 83707-0070

XXXX U.S. Mail
_______ Hand Delivery
_______ Facsimile
_______ Overnight Mail
_______ Electronic Mail

Barton L. Kline
Monica B. Moen
Idaho Power Company
1221 West Idaho Street
P.O. Box 70
Boise, ID 83707-0070

XXXX U.S. Mail
_______ Hand Delivery
XXXX Facsimile
_______ Overnight Mail
_______ Electronic Mail

Scott Woodbury, Esquire
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83720-0074

XXXX U.S. Mail
_______ Hand Delivery
XXXXX Facsimile
_______ Overnight Mail
_______ Electronic Mail

R. Blair Strong

R. BLAIR STRONG

00167529