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IDAHO PUBLIC
UTILITIES COMMISSION

AVISTA
Corp.

October 23, 2007

Jean Jewell, Commission Secretary
State of Idaho
Idaho Public Utilities Commission
Statehouse
Boise, ID 83720

Re: Comments of Avista Corporation in Case No. IPC-E-07-15

Dear Ms. Jewell:

Enclosed for filing are an original and seven (7) copies of Avista's comments regarding "Idaho Power Company's Petition to Modify the Fuel Costs Used to Establish Published Rates for PURPA Qualifying Facilities."

If you have any questions regarding this filing, please feel free to contact Clint Kalich at (509) 495-4532 or myself at (509) 495-4975.

Sincerely,

Linda Gervais

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S PETITION TO MODIFY THE FUEL COSTS USED TO ESTABLISH PUBLISHED RATES FOR PURPRA QUALIFYING FACILITIES	CASE NO. IPC-E-07-15 COMMENTS OF AVISTA CORPORATION

Avista Corporation ("Avista") hereby submits comments in response to the Commission's September 27, 2007 notice of modified procedure in Case No. IPC-E-07-15.

I. BACKGROUND

Under sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 ("PURPA"), and pertinent regulations of the Federal Energy Regulatory Commission ("FERC"), regulated electric utilities are required to purchase power from qualifying generation facilities ("QFs") at avoided costs. Avoided costs are the costs the electric utility can avoid by purchasing energy generated by a QF rather than generating the energy itself or purchasing the energy in the wholesale market.

The Commission has historically set avoided cost rates by estimating the fixed and variable costs of a hypothetical fossil fuel-fired generation facility and using those estimated costs as a measure of the costs Idaho jurisdictional electric utilities could avoid by purchasing

QF energy. This methodology for estimating avoided costs is commonly referred to as the surrogate avoided resource ("SAR") methodology. The current SAR is a natural gas-fired combined cycle combustion turbine. For QF projects generating less than 10 average MWh, the avoided cost rates determined by the SAR methodology are commonly referred to as the published rates.

One critical component of the SAR methodology is the cost of natural gas used to fuel the SAR. In Order No. 29124, issued on September 26, 2002, the Commission established the methodology currently used to compute the fuel cost component of the SAR. The method the Commission adopted in Order No. 29124 to calculate the fuel cost component of the SAR methodology starts with an arithmetic average of the nominal prices for natural gas from the Northwest Power and Conservation Council's ("NPCC") median 20-year forecast of natural gas prices. In Order No. 29124, the first three years of the 20-year forecast were 2000 through 2002. These three years consisted of the current year's forecasted price, plus the previous two years' forecasted prices. The average three-year price set in 2002 was $3.75. The SAR methodology then escalated that three-year average natural gas price at a uniform percent per year for the next 19 years. The escalation rate was calculated from the NPCC 20-year natural gas forecast. In 2002, the escalation rate was 2.6 percent.

In 2004, the NPCC revised its 20-year natural gas price forecast. In Order No. 29646, the Commission revised the fuel cost component for the SAR methodology using the NPCC's revised natural gas price forecast. This changed the starting year fuel cost to $5.10. The fuel escalation rate was changed to 2.30 percent. As a result of these two changes, in 2004, the levelized published rate for a QF project estimated to come on line in 2007 (20-year term) went from $53.67 per MWh in 2002 to $62.40 per MWh in 2004.

II. THE CURRENT METHODOLOGY FOR SETTING THE FUEL COST COMPONENT SHOULD BE MODIFIED

The parties to this proceeding have expended significant effort over the past two or more years to quantify how short-term wind resource output volatility should be treated relative to the firm SAR resource. This adjustment presumes that the SAR avoided cost estimates are set correctly in the first place. It is important to remember that the SAR is a gas-fired combined-cycle combustion turbine, not a wind project.

The current SAR methodology for natural gas does not adequately recognize the dynamics of the natural gas marketplace we have been experiencing for some time now. Namely, that prices are forecasted to fall for a number of years into the future before returning to a traditional upward trajectory. Simply using a starting price and escalating the value will lead to a SAR avoided cost well above what is reasonable. This result is best illustrated by Attachment #2 to Idaho Power's filing in this proceeding. As Idaho Power points out in their filing, the SAR rate would rise to approximately $73, well above what the price would be were the NPCC forecast implemented.

III. AVISTA'S PROPOSAL

Though Idaho Power's proposal goes a long way in moving SAR-based prices toward avoided cost, its approach does not account for the "time-value of money." In other words, by using an average price across all of the years, they are proposing to pay a higher cost now and a lower cost later on, in real-dollar terms. This arrangement, if adopted by the Commission and applied to Avista, would leave the Company paying too much for a non-fueled PURPA project's output, whether it is fueled by wind or another form of energy.

To better reflect avoided costs, Avista recommends that the Commission adopt the actual NPCC medium east-side forecast values over the entire forecast timeframe. This method would avoid paying too much upfront. It will also set SAR prices reflecting the current down-trend in natural gas prices, as forecast by the NPCC. The prices from the NPCC forecast, adjusted to nominal dollars using the current SAR escalation rate of 2.1% per year, are shown below.

NPCC East-Side Natural Gas Price Forecast, Adjusted to Nominal Dollars

Year	Price	Year	Price	Year	Price	Year	Price
2007	7.80	2013	6.13	2019	7.32	2025	8.86
2008	7.52	2014	6.11	2020	7.57	2026	9.17
2009	7.12	2015	6.31	2021	7.81	2027	9.50
2010	6.69	2016	6.56	2022	8.06	2028	9.83
2011	6.26	2017	6.80	2023	8.31	2029	10.18
2012	6.08	2018	7.10	2024	8.59	2030	10.52

IV. COMMISSION NEED NOT RE-VISIT NON-FUEL SAR ASSUMPTIONS

Avista is aware that some parties advocate that all SAR resource assumptions be re-visited along with the adjustment to natural gas prices. The Commission should avoid this approach given that such modifications would have little or no net impact on published rates. Natural gas represents approximately 80% of the overall cost of the SAR resource. Other cost drivers included in the SAR on the whole remain reasonable, and were they to change would not greatly affect overall published rates.

For example, were a non-gas assumption such as capital cost found to be 10% too low, overall SAR costs would rise only 2%. For comparison, the Company's 2007 IRP capital cost assumption for an equivalent SAR resource is a mere 2% higher than the inflation-adjusted SAR capital cost. On the other side, the Company's 2007 IRP assumptions include a heat rate 5% lower than the SAR resource. Adjusting the heat rate alone would reduce the avoided cost price by roughly 4%.

V. CONCLUSION

These comments address a limited policy question for the Commission. Avista does not believe that its proposal presents any factual dispute requiring a technical proceeding to effectuate a resolution. Avista proposes to retain the fundamental SAR methodology. The assumptions for all components of the SAR methodology remain the same except for the fuel cost assumption. All of the data required to analyze Avista's proposal to change the fuel cost assumption are contained in the NPCC's 2007 natural gas price forecast, and the current SAR methodology model.

Respectfully submitted this 23rd day of October 2007.

AVISTA CORPORATION

Kelly Norwood

KELLY NORWOOD
Vice President, State and Federal Regulation