DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **SCOTT WOODBURY**

DATE: **APRIL 17, 2007**

SUBJECT: **CASE NO. AVU-E-07-02 (Avista)**
PETITION REGARDING PURPA WIND QFS: TO REVISE PUBLISHED AVOIDED COST RATES; TO ELIMINATE 90%/110% PERFORMANCE BAND; AND TO AMEND PUBLISHED RATE ELIGIBILITY RULES – (DISAGGREGATION)

On April 2, 2007, Avista Corporation (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a change in the Company's PURPA obligations for wind QFs. Avista proposes a raising of the cap on entitlement to published avoided cost rates for wind powered small power generation facilities that are qualifying facilities (QFs) under Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) from the current level of 100 kW to 10 average megawatts per month (10 aMW), subject to the following conditions:

1. Reducing the published avoided cost rates applicable to purchases by Avista of electric power from wind powered QFs by 12%, as a percentage reduction to be applied against scheduled avoided cost rates except where the QF developer agrees in the power purchase and sale contract with Avista to deliver QF output to Avista on a firm hourly schedule, in which case the percentage reduction shall be 6%;

2. Removing the requirement that the 90%/110% performance band requirement not be applied to purchases from wind powered QFs;

3. Authorizing Avista to purchase state-of-the-art wind forecasting services to provide Avista with forecasted wind conditions in those geographic areas in which wind generation resources are located, provided that QFs will reimburse Avista for their share of the on-going cost of the wind

forecasting service, in proportion to their percentage share of the wind-generator capability being supplied to Avista from that area;

4. Requiring QFs to deliver a "mechanical availability guarantee" to Avista to demonstrate monthly, except for scheduled maintenance and events of force majeure or uncontrollable force, that the QF was physically capable and available to generate a full output during 85% of the hours in a month;

5. Clarifying the rules governing the entitlement to published rates to prevent all QFs, whether wind or non-wind, capable of delivering more than 10 aMW per month from structuring or restructuring into smaller projects solely for the purpose to qualify for the published avoided cost rates; and

6. Clarifying that the cap on entitlement to published avoided cost rates shall be raised to 10 aMW only until Avista's total wind portfolio from all sources totals 400 MW.

BACKGROUND

Since the commencement of Idaho Power Case No. IPC-E-05-22 (regarding PURPA wind QFs), Avista states that it has participated in follow-up wind workshops in Idaho and initiated its own wind integration study. In particular, Avista states that it retained a leading industry consultant, EnerNex, to prepare a wind integration study, the final report of which was released to the public on March 20, 2007. Additionally, Avista states that it participated in, and benefited from Wind Integration Action Plan proceedings conducted under the auspices of the Bonneville Power Administration and the Northwest Power & Conservation Council.

Avista notes that Idaho Power Company has recently filed petitions respecting PURPA purchase obligations in two different dockets, Case Nos. IPC-E-07-03 (petition to raise published rate eligibility cap and eliminate 90/110 performance band requirement for wind QFs) and IPC-E-07-04 (petition to clarify rules regarding published rate eligibility – disaggregation). The Company's Petition in this case reflects in part recommendations made by Idaho Power Company with respect to its service territory. Avista concurs with those recommendations, and recommends that similar policies be adopted with respect to Avista's PURPA purchase obligations.

Wind Integration Study – Proposed Adjustment

In Case No. IPC-E-05-22, Order No. 29839, the Commission found that the supply characteristics of wind generation and related integration costs could provide a basis for adjustment of the published avoided cost rates, an adjustment that may be different for each utility. Avista's recommendation that published avoided cost rates be discounted by 12% reflects Avista's assessment, based on its wind integration study, of the cost to its system associated with integrating up to 400 MW (nameplate capacity) of wind generation, both constructed and purchased, into its system. The 12% discount reflects costs associated with integrating the QF output into Avista's system, including intra-hour variability of deliveries from wind generation. Avista's Wind Integration Study is submitted as Exhibit A to its Petition.

In instances where the QF developer agrees to deliver QF output to Avista on a firm hourly schedule, Avista recommends that the published avoided cost rates instead be discounted by 6%, which reflects a lower level of costs incurred by the Company in integrating the wind power.

Avista recommends that the cap on entitlement to published avoided cost rates be raised to 10 aMW only until Avista's total wind portfolio from all sources totals 400 MW, or until Avista files for changes to its avoided cost schedules, or files a new Wind Integration Cost study based on additional industry experience. The 400 MW represents the targeted amount of wind power acquisition, based on Avista's Integrated Resource Plan (IRP). As part of its IRP process and other resource assessment processes, Avista plans to continue studying the costs and effects of wind power upon its system, and will make further filings, when it appears that material changes to its tariff are necessary.

Elimination of 90%/110% Performance Band

Idaho Power Company in Case No. IPC-E-07-03 recommends the elimination of the 90%/110% performance band, subject to several conditions. Avista recommends that the same policies be applied to purchases of wind power by Avista from QFs. Avista believes there is benefit to a level of consistency in the structure of PURPA QF tariffs between utilities.

Additionally, Avista supports the concept of establishing a mechanical availability guarantee grid. Such guarantee, the Company contends, would encourage wind developers to maintain the readiness of their equipment throughout the full duration of the long-term contract.

Avista also supports the concept that QFs should participate in funding wind forecasting services, as a condition for not being bound by the performance band. Where such services are purchased or constructed by Avista within a geographic area, Avista would propose to share such expense on a pro rata basis with QFs that are selling their power to Avista under long-term contracts, so that the QFs would pay a proportion of the wind forecasting expenses proportional to their share of the wind-generator capability within the Avista wind portfolio from that geographic region.

Published Rate Eligibility – Disaggregation

Idaho Power Company has also recommended adoption of a rule nearly the same as that adopted by the Oregon Public Utility Commission preventing multiple projects owned by the same person from receiving the published avoided cost rates, if located at the same site. Avista recommends that the approach recommended by Idaho Power in Case No. IPC-E-07-04 be applied to Avista's purchases as well.

Avista contends that wind projects are uniquely able to reconfigure themselves into various legal ownerships solely for economic reasons, without disturbing or affecting in any way site or structural design. In some circumstances, other generating technologies, it notes, may have a similar capability. Projects that are under common ownership, Avista contends, should not be able to reconfigure themselves legally, for the sole purpose of qualifying for published avoided costs in Idaho.

Additionally, Avista contends that a uniform approach as between Idaho jurisdictional utilities is particularly useful, in order to avoid unneeded incentives for favoring one utility over another, not because of the fundamental economic differences reflected in the avoided costs and wind integration costs, but because of different QF rules that might apply to different utilities.

COMMISSION DECISION:

Avista recommends that its Application in Case No. AVU-E-07-02 be processed pursuant to Modified Procedure. Reference IDAPA 31.01.01.201-204. Avista is receptive to further proceedings, if the Commission believes, based on comments received, that further proceedings would be advantageous. Staff supports the Company's recommended procedure. Does the Commission agree that Modified Procedure is appropriate in Case No. AVU-E-07-02?

Scott Woodbury

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