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AVISTA Corp.

August 11, 2006

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive S.W.
Olympia, WA 98504-7250

Re: Avista Comments on the Public Utility Regulatory Policies Act Standards, Docket No. UE-060649

Dear Ms. Washburn:

Thank you for the opportunity to provide comments regarding the consideration of the Public Utility Regulatory Policies Act Standards in Docket No. UE-060649. Avista's comments are responsive to the questions, italicized below, contained in the Commission's June 9, 2006 Notice of Opportunity to File Written Comments.

Avista's comments herein address the time-based metering and communications questions beginning on page 7 of the Commission's inquiry. Regarding the questions beginning on page 9 on Interconnection issues, Avista is filing its response separately on this item as a joint respondent with other Washington utilities.

1) *Should the Commission, by rule, adopt PURPA Standard 14 – Time-Based Metering and Communications – to apply uniformly to PSE, Avista Utilities, and PacifiCorp requiring each utility to offer by February 8, 2007, a time-based rate to each customer class and the necessary time-based metering to individual customers upon request? Why, or why not?*

The Commission should not require by rule that, by February 8, 2007, PSE, Avista Utilities, and PacifiCorp offer a time-based rate to each customer class and the necessary

time-based metering to individual customers upon request. Two components of such a requirement are problematic for Avista. First, at best it would be prohibitively expensive to install time-based metering and associated data storage and billing system upgrades by February 8, 2007. At worst, it would not be possible to acquire and install over 220,000 meters for Avista's Washington customers and the necessary computer system upgrades in a five month period. Second, the time-based metering "upon request" option by customers is not feasible. To the extent that time-of-use metering is cost-effective, then all customers would need to be metered. Meter installation and communication for data aggregation should be done neighborhood by neighborhood. It would not be economic to put time-of-use (TOU) meters onto customer premises only upon request, especially where it was not part of a wider installation plan in the area. If offered in a rate tariff, TOU could be by individual election, but from the utility perspective this is an "all or nothing" proposition.

Recent and past analyses of TOU by Avista show it is likely not cost-effective for Avista to implement TOU rates for all customer classes. The potential savings created by customers shifting their daytime demand into the night does not outweigh the cost of meter installation, software upgrades, and associated operational costs. TOU, however, could be cost-effective for our large industrial customers. These customers consume large quantities of power and already have sophisticated TOU-ready meters, making them potentially "low-hanging fruit."

A high-level study recently performed by Avista shows the value of Avista's on-peak/off-peak differential, combined with avoided capacity charges, to be under 1.5 cents per kilowatt hour. This value needs to be compared to the cost of metering, software, and operating costs for TOU implementation in our residential and small commercial customer classes, which represent over 50% of our customer usage. An approximate cost estimate of meter installation is $40 million. Additionally, the Company's preliminary cost estimate for associated data storage and billing system updates is $22 million. If the metering and billing costs are amortized over twenty years, then the Company would need to have a shifting of 7% percent of its load, 446 million kwh or 51 aMW, for this to be cost-effective. We would expect that with a 1.5-cent cost differential this would not be cost-effective. As mentioned earlier, however, there may be an opportunity for large industrial customers to provide load reduction through TOU programs with significantly less cost than through a total Company approach. The Company is examining this as part of its 2007 Integrated Resource Plan.

2) *Should the Commission examine and determine whether to adopt the Time-Based Metering and Communications Standard on a generic basis (i.e., applying the same requirements to all utilities), or should it consider the standard within separate proceedings specific to the circumstances of each utility?*

The Commission should examine and determine whether to adopt time-based metering and communication on a generic basis for the policy and principles underlying the consideration of TOU adoption. However, the Commission should consider the specific application of implementation of TOU in separate proceedings.

For the overall policy aspects in considering TOU adoption, issues common to all stakeholders will likely be discussed. Participation and perspectives of each utility should help inform others. Yet, there will likely be issues unique to each utility for implementation. The details for implementation may involve different metering equipment and architectural design of data collection. The power supply cost profiles (e.g., the value of on-peak versus off-peak costs) may also be different. If the Commission adopts TOU pricing, the same type of rate schedule should not be required of all utilities and for all rate classes.

3) *Should the Commission reject, reiterate or modify its policy enunciated in Cause U-78-05 that time-of-day rates are appropriate so long as they are cost-effective?*

The Commission Decision and Order in Cause No. U-78-05 at page 7 states:

> "Basically, this standard says that rates to classes of electric customers shall be on a time-of-day basis unless it is determined that time-of-day ratemaking is not cost-effective to the utility and its customers. We agree with this standard, and believe it should be adopted.
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> "Amendments were offered, such as utilizing cost-justified metering only and 1,000 KW loads or greater only, but we believe that the limitations thus proposed are included within the language of the standard as it presently exists. Basically, time-of-day ratemaking is acceptable only if cost-justified. Other parties proposed to reject the PURPA standard because there is allegedly no showing that it is presently cost-justified at all within Washington State. Allusion was made to metering costs and present high load factors, and rejecting the standard was suggested for a specific class such as residential because metering is not shown to be cost effective as to that class.
>
> "Again, the proposals to reject the standard are based upon a judgment that under existing circumstances, time-of-day metering and rates may be not cost justified. We believe that the standard itself is flexible enough to accommodate to present circumstances as well as any future circumstances and believe it more appropriate to adopt the standard, with its flexibility, than to reject or amend the standard under present facts but thus to be without a stated policy in the event of future changes in load or generation patterns.

> "Finally, it is urged that high daily load factors limit achievable savings and that a shifting of loads off peak could hamper reservoir refills or otherwise lead to inefficient use of power and resources. We believe that those factors are factors which we and the utilities may properly consider under that standard in terms of the cost-benefit analysis as "other costs associated" with the use of time-of-day rates."

Avista believes that the policy enunciated in Cause U-78-05 that time-of-day rates are appropriate so long as they are cost-effective should be reaffirmed. The Commission appropriately placed an emphasis on cost-effectiveness and noted that flexibility is built into the now-existing standards.

4) *What factors should the Commission consider in determining whether time-based rates and metering are cost-effective?*

The Commission, in determining whether time-based rates and metering are cost-effective, should consider the following factors.

A) The economic value of the difference between on-peak and off-peak wholesale costs. This value has two components, cost and volume. The value should show how much energy must be purchased by utilities for these periods if customers do not reduce the need for this power by shifting usage from on-peak to off-peak periods.
B) The economic value of deferred capacity installation
C) The economic value, if any, associated with additional information gathered through TOU metering systems (e.g., load research data).
D) The costs of meter installation.
E) The costs of data storage, billing, and other associated functions to enable TOU pricing.
F) Rate equity issues. Some customers have the flexibility to shift usage into off-peak hours. Some don't. This will create a situation in which some customers may experience lower bills and others higher. The significance of this should be addressed.
G) Process. Would movement to TOU rates need to be addressed in a general rate case or could this be done in a tariff filing?
H) The time to install and put into operation TOU meters and associated equipment.

5) *If the Commission adopts the Time-Based Metering and Communications Standard, which, if any, of the 4 listed types of time-based rate schedules should be required? Should the same type of rate schedule be required of all utilities and for all rate classes?*

If the Commission adopts a time-based metering and communications standard, of the four listed types of time-based rate schedules, Avista suggests that only time of use pricing be required, based on cost-effectiveness. The second and third categories, critical peak pricing and real-time pricing, respectively, should be considered at a later time based, in part, on customer response to time of use pricing, if implemented. The fourth category, credits for consumers with large loads who enter into pre-established peak load reduction agreements, has been implemented by Avista on several occasions. In late 2000, the Company instituted a large-customer buy-back program. More recently, on July 17, 2006, Avista implemented bi-lateral agreements with three customers at a time of near-record temperatures.

6) *What, if any, relationship should there be between a utility's integrated resource plan and its use of time-based metering, time-of-use rates and demand management programs?*

Avista submits that there is a relationship from a planning perspective for the consideration of time-based metering, time-of-use rates and demand-side-management. Peak shaving and peak shifting through TOU and other demand-response programs are analyzed in the IRP planning process as a means to defer or avoid higher cost alternatives such as a peaking natural gas combustion turbine.

The IRP process is the appropriate venue for TOU evaluation. The IRP, by definition, is an exercise in evaluating future resource options, including conservation and demand-side management. The IRP would account not only for energy savings, but also deferred capacity acquisition. A TOU evaluation would be an extension of existing IRP analysis, and could be completed on a class-by-class basis without a significant need for new modeling. Avista's work plan for its 2007 IRP incorporates a TOU evaluation. Commission Staff and other IRP participants will be provided an opportunity to comment on this analysis.

7) *Are there other issues the Commission should consider in this Inquiry?*

Yes. The Company notes that time-of-use metering and pricing has been considered by utilities periodically. Avista reviews the cost-effectiveness of TOU on an ongoing basis. This is also included in its IRP analyses. However, if the Commission prefers to codify a requirement for TOU determination and applicability, it may be appropriate to consider requiring by rule a periodic assessment of TOU pricing through the IRP process.

Thank you for the opportunity to comment on these proposed rules. Please direct any questions on this matter to me at (509) 495-8706.

Sincerely,

Bruce Folsom,
Manager, Regulatory Compliance