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October 21, 2020

Mark L. Johnson
Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: UE-190663 - Avista Utilities' Schedule 62 – Standard Power Purchase Agreement

Dear Mr. Johnson:

Avista Corporation, dba Avista Utilities, ("Avista") submits the attached revised proposed standard power purchase agreement ("Standard PPA") to be used for Qualifying Facilities ("QFs") that are 5 MWs or less. The revised proposed Standard PPA includes revisions that reflect the guidance Avista received at the Commission's Open Meeting held on September 24, 2020, and Avista's understanding of the comments of the Commissioners on the issues discussed herein

Avista's is proposing the following changes to its Standard PPA:

- Removal of the 90-110 performance band;
- Revising the provisions for off-system QFs to be consistent with the approach adopted by Puget Sound Energy in its form of power purchase agreement, which has been approved by the Commission;
- Revising the Standard PPA to be clear that most delays by the QF, including most delays caused by Force Majeure or by Avista, can be cured; and,
- Revising the Standard PPA to allow QFs, either before or after the Commercial Operation Date, to expand up to a maximum of 5 MWs.

Avista continues to be concerned about the implications of removing the 90-110 performance band on both Avista's operations and customers. Removal of the 90-110 performance band means that there are no consequences for a QF failure to deliver expected output. As a result, Avista's customers are required to pay for capacity for the QFs that Avista previously proposed to subject to the 90-110 performance band, but there is no consequence if the QF fails to deliver its output as expected. This revision may also have unintended consequences when Avista enters the EIM. Even with these concerns in mind, Avista is willing to remove the 90-110 performance band from its Standard PPA. The Company will note that by removing the performance band from the Standard PPA does not mean it will not seek to include the performance band for QFs greater than 5 MW.

In response to concerns about the provisions of Avista's Standard PPA applicable to off-system QFs, Avista has eliminated most of Section 5 in its proposed revised Standard PPA. As a result, Avista will simply purchase Net Output (that is, the capability and electric energy generated by the Facility, less Facility Service Power and Losses expressed in megawatt-hours (MWh) or kilowatt-hours (kWh)) delivered to Avista at the Point of Delivery at the applicable avoided cost rate. As Avista understands it, this is substantially the same way that Puget Sound Energy addressed this issue in its standard form of power purchase agreement that has already been approved by the Commission.

As noted above, Avista has revised its Standard PPA to make clear that a QF may cure most delays in achieving the Commercial Operation Date, including most delays that are due to Force Majeure or that are caused by Avista. Under the Standard PPA, the QF cannot cure a delay, regardless of the cause of such default, that results in the QF failing to achieve the Commercial Operation Date within three years of the Effective Date of such QF's PPA. It is Avista's view, that a delay that results in the QF achieving a Commercial Operation Date beyond three years of the Effective Date cannot be cured because any cure would result in a violation of the Commission's regulations. Specifically, the Commission's regulations provide:

> The utility's standard rates for purchases must offer fixed rates to a new qualifying facility for a term of fifteen years beginning on the date of contract execution or a legally enforceable obligation, but not less than twelve years from the commercial operation date of the qualifying facility.[1]

In short, the Commission's regulations require Avista to offer a 15-year term and that term must include not less than 12 years from the Commercial Operation Date. If a QF fails to achieve the Commercial Operation Date within three years for any reason, any cure of such delay would result in either: (i) an extension of the term to allow 12 years from the Commercial Operation in which case the term would exceed the maximum 15-year term, or (ii) retention of the original 15-year term, which would result in a term that does not include at least 12 years from the Commercial Operation Date. Simply stated, Avista cannot revise this provision of its Standard PPA and comply with the Commission's regulations.

Finally, Avista has revised its Standard PPA to allow a QF to expand to a maximum of 5 MWs at any time during the term of such QF's PPA. Avista notes that this change is a direct result of Staff's recommendation and the discussion that occurred at the September 24th Open Meeting. Avista continues to be concerned that this proposed revision could adversely impact customers. If avoided cost rates decline from the time the initial PPA was executed to the time when the QF

[1] WAC 480-106-050(4)(i).

expansion is complete, it would result in the QF receiving higher payments than Avista's actual avoided cost for such added capacity, ultimately costing customers.

Avista is not proposing to allow a QF that is initially less than 5 MWs to expand above 5 MWs. QFs larger than 5 MWs are not eligible for standard avoided cost rates or the Standard PPA. More fundamentally, if a QF is allowed to expand to a size greater than 5 MWs, Avista would need to parse the output of their facility such that the QF receives the standard avoided cost rate for the first 5 MWs and an IRP-based rate for the output associated with any capacity above 5 MWs. This structure would be unduly burdensome and potentially technologically impossible to implement. Such a structure would also set precedent for large QFs to stage such that they can receive a standard avoided cost rate for 5 MWs of output and an IRP-based rate for output above 5 MWs.

Throughout this process, Avista has attempted to establish commercially reasonable terms in its Standard PPA that satisfy Avista's operational needs and that ensure its customers are not adversely impacted. As discussed herein, Avista continues to be concerned about certain changes that it is proposing in its Standard PPA. Accordingly, Avista respectfully requests that the Commission accept Avista's proposed Standard PPA, but that the Commission remain open to revisiting these provisions in the future.

For ease of reading the Company has included as an attachment a redlined version of the Standard PPA to show the changes made from the version reviewed and discussed at the Commission's Open Meeting on September 24, 2020. If you have any questions regarding this filing, please contact Michael Andrea at (509) 495-2564, or michael.andrea@avistacorp.com, or me at (509) 495-2782 or shawn.bonfield@avistacorp.com.

Sincerely,

/s/Shawn Bonfield

Shawn Bonfield
Sr. Manager of Regulatory Policy & Strategy

Enclosures