

Avista Corp.  
1411 East Mission PO Box 3727  
Spokane, Washington 99220-3727  
Telephone 509-489-0500  
Toll Free 800-727-9170



Corp.

May 16, 2003

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

**Re: Docket No. UE-030423 -- Chapter 480-107 WAC Rulemaking**

Dear Ms. Washburn:

Thank you for the opportunity to review the "request for proposals" rule, Chapter 480-107 WAC.

**General Comments**

Avista supports competitive bidding in general but suggests several changes to Chapter 480-107. It is a one-size-fits-all approach that does not recognize circumstances unique to individual companies or best practices for power procurement given current and expected market conditions. While Avista Utilities supports competitive bidding for procuring low cost, safe and reliable energy, this rule provides a detailed methodology that is not reflective of power purchasing protocols that lead to least cost purchases.

Avista appreciates the Commission-authorized waivers that the Company received in four prior filings under this rule. The Commission's historical implementation of this rule has recognized Avista's unique circumstances of not having an immediate long-term need for power from 1993 through 1999. Avista's most recent RFP in 2001 was for a stated need of 300 MW. This RFP was also modified from the RFP rule with Commission authorization. These prior waivers illustrate that the existing rule's processes need modification.

Avista recommends that the implementation components of Chapter 480-107 WAC be revised to reflect the spirit of the rule, which calls for resources to be procured through a competitive process such that customers benefit from the best possible prices, terms, and conditions. Unless properly designed, an RFP can actually be detrimental to this spirit. A generic (or "one-size-fits-all") RFP process may work well for standard products, such as

long-term power supply contracts and certain new resources. However, the RFP process is not as effective as other means for obtaining price information for short- to medium-term purchases (defined as up to five years), and procurement of non-standard resource technologies (e.g., coal plants and wind).

Avista believes that short- to medium-term power purchases are best procured through the broker market. This is supported by the Company's purchase of 100 aMW through 2010 completed through eight transactions in the late-2001 to mid-2002 timeframe. These markets can change quickly, requiring a nimble acquisition process to ensure the best prices are obtained. Implementing a 90-day review process reduces a utility's ability to get the best price, as market conditions likely will have changed since the original decision to acquire power was made. Avista recognizes that 480-107-001 provides exceptions for events of this nature. However, the tone of the rule discourages such practices. Avista believes that the focus of the rule should be on long-term resource acquisition of standard products, as will be explained in the following comments.

Combustion (combined or simple cycle) turbine installations have become standardized such that many developers are able to build and finance projects in short order, allowing RFPs to provide an opportunity to identify the best deal for customers. However, less standardized projects (e.g., coal, wind, geothermal) may not be effectively procured through an RFP due to the fact that more expertise is required, financing is more complicated, the number of developers is limited, and lead times are longer.

The Company is concerned that RFP rules could prevent the effective implementation of an IRP that relies on a least-cost strategy that includes less standardized resources including wind and coal. For these less-standardized projects, requests for qualifications (RFQs) or other means likely are more useful in obtaining competitive prices as will be described below.

### **Proposed Modifications**

480-107-060(2)(a): Avista proposes that the competitive bidding process be initiated by a company's need to acquire new resources. WAC 480-107-060 currently requires that a solicitation for resources begin within 90 days of the release a company's integrated resource plan (IRP). The current rule has the effect of preparing a request for proposals (RFP) that will generate time-consuming effort by bidders with an uncertain chance of selection or the preparation of a waiver filing. The current rule assumes that the electric utility is always in resource deficit from load growth and resource retirements. But this is not always the case. Avista's 2003 IRP shows the utility is surplus on an annual basis for the next five years. To require a utility to issue an RFP just because it issued an IRP is costly. Furthermore, issuing an RFP to meet a WAC rule may not garner serious consideration by generation developers and compromise future relationships with the company. Developers may not spend the time and dollars developing a response to an RFP if an IRP shows the utility is not in need of new resources. The RFP WAC rules

should be changed to only be applicable when the utility has demonstrated a defined need for future supplies of electrical energy.

480-107-050: The avoided cost schedule in the bidding process should be eliminated. The avoided cost schedule should be set up after the bidding information becomes available to the utility. When an avoided cost schedule is included in the RFP it effectively becomes a price ceiling. Bidders then submit proposals that are not based on the actual cost of resources, but are aimed at being as close to the price ceiling as possible. Thus, utilization of the avoided cost schedule does not initiate a true market bidding process. Without the avoided cost schedule, bidders are likely to submit their best estimate of actual costs. This should result in lower cost bids for the utility and consequently for the customers.

Because the RFP would no longer be triggered by the IRP, Avista recommends that an alternative process be implemented to meet the requirements of PURPA. In its Idaho jurisdiction, Avista uses a methodology that ensures that all PURPA resources will be acquired under then-current avoided costs, no matter when a resource is bid to the Company. The methodology requires that the Company's IRP model be run with and without the proposed PURPA resource, recognizing its unique characteristics (e.g., contract term, on-/off-peak generation, seasonal shaping). The new resource is included in the IRP model assuming it is obtained at no cost. The net power supply cost difference between the two IRP model runs is identified, leveled, and used as the avoided cost.

480-107-060(2)(a): Avista proposes that a utility should have the option to issue resource-specific RFPs. There are technologies, such as wind and coal that would benefit from being scoped through a resource-specific RFP process.

480-107-060(1): To Avista's knowledge, the longest "lead-time" resource bid under the existing rule has been a combined cycle combustion turbine (CCCT). The lead-time for CCCT construction is approximately 30 months. Avista questions how a longer lead-time resource would be considered and processed under the existing rule. For example, a coal plant may take five to seven years to design, permit, and build, and that does not account for transmission from remote load centers. Furthermore, the size and scale of coal plant construction and operation has historically involved a consortium of parties.

Generally, the consideration of a large project begins with a Request for Qualifications (RFQs) and preliminary discussions with potential contractors. This is not contemplated under the current rule. Avista suggests that specific consideration be provided in 480-107 for RFQs relating to resources with long lead-times.

480-107-010: Prototype contracts should not be required. Should the Commission desire contract templates, the Company would have available standard agreements for reference. Avista makes this request given that the types of energy products requested can be diverse and to require prototypes for each is impractical.

480-107-020(1): All contract terms and conditions should be subject to negotiations, including negotiations on price so as to ensure least cost resource acquisition.

480-107-070: Resource proposal evaluations should not rely exclusively on the IRP and market conditions at the time of its most recently filed IRP. Current information should be allowed where it can be shown to better represent market conditions at the time of evaluation. The Commission, in its approval process pursuant to 480-107-060(2)(a), has the authority to review any such update without the need to have a formally updated IRP.

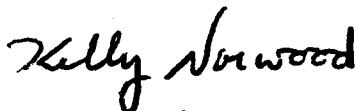
480-107-060(2)(b): Instead of the current 60 day requirement for public comment, a 30 day notice period should be sufficient. The Commission has the authority to extend this time period in the event of an inadequate proposed RFP.

480-107-070(4): Regarding the need to ensure that only non-interested parties are reviewers of the RFP and the bidding process, the RFP submittals must be confidential. The bidders expect such in order to ensure that their market information is not available to their competitors. To do otherwise may limit the number of bidders. The RFP should outline how confidentiality will be addressed as the bids are processed.

Regarding transmission issues: The Company believes that the RFP rule is consistent with the Energy Policy Act (EPACT) and FERC 888/889 for wheeling issues. Avista has always had a policy of providing wheeling to other parties as long as there is capacity available on the wheeling path.

Please direct any questions on this matter to Bruce Folsom at (509) 495-8706, Clint Kalich at (509) 495-4532, or Bill Johnson at (509) 495-4046.

Sincerely,

A handwritten signature in black ink that reads "Kelly Norwood". The signature is written in a cursive, flowing style.

Kelly Norwood  
Vice-President, Rates and Regulation