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Steven V. King  
Executive Director and Secretary  
Washington Utilities & Transportation Commission  
1300 S. Evergreen Park Drive S. W.  
P.O. Box 47250  
Olympia, Washington 98504-7250

Re: Docket No. U-161024 – Avista Utilities Response to Joint Recommendations Filed by Puget Sound Energy, Northwest and Intermountain Power Producers Coalition, Renewable Energy Coalition, Renewable Northwest, Northwest Energy Coalition, and Climate Solutions

Dear Mr. King,

On February 26, 2018, Puget Sound Energy filed joint recommendations (“Recommendations”) on behalf of itself, Northwest and Intermountain Power Producers Coalition, Renewable Energy Coalition, Renewable Northwest, Northwest Energy Coalition, and Climate Solutions (“Select Parties”). The Select Parties’ Recommendations were filed in Docket No. U-161024, the Commission rulemaking to consider changes to WAC 480-107, which outlines electric companies’ responsibilities for purchasing electricity from Qualifying Facilities (QFs) and Independent Power Producers and Purchases of Electrical Savings from Conservation Suppliers. Avista Corporation (“Avista or the Company”) is concerned that certain aspects of the Select Parties’ Recommendations, if adopted, could adversely impact Avista’s customers and, therefore, Avista provides this response to the Select Parties’ Recommendations.

As an initial matter, Avista notes that it was not given an opportunity to provide input on the Select Parties’ Recommendations before they were submitted to the Commission. Any Commission rules implementing PURPA will have an impact on all utilities that are subject to the Commission’s jurisdiction. Therefore, Avista would prefer—at least initially until it becomes impractical—an inclusive process in which all potentially impacted utilities and stakeholders have an opportunity to develop recommendations that are submitted to the Commission. It is Avista’s view that such an inclusive process will produce a better outcome for QFs and other stakeholders

as well as all utility customers in Washington and will mitigate the risk of an outcome that may work for one utility and its customers however, adversely impacts another differently situated utility and its customers. In this regard, it is worth noting that those utilities that operate in more than one state may have certain concerns that are different from a utility that operates only in the State of Washington.

At the workshop held on September 5, 2017, Avista along with many of the participants, expressed an interest in working together to come up with areas of common ground or recommendations that could be made to the Commission to assist Staff in drafting the proposed rules related to the implementation of PURPA. More discussion between the participants attending that workshop was necessary before reaching any consensus. However, there did appear to be broad support for the development of certain common contracting procedures. Since the workshop, Avista has not been involved in (or included in) any substantive conversations with the participants on these issues, but has been, and continues to be, open to participating in any such conversations.

The Company continues to support the development of common contracting procedures for PURPA contracts. Avista also continues to be open to conversations with the Commission Staff, utilities, and other stakeholders to develop other rules related to the implementation of PURPA in the State of Washington. To the extent that the Select Parties' Recommendations may serve as a starting point for such conversations, Avista has significant concerns that some aspects of those Recommendations which, if implemented, could adversely impact Avista's customers. Avista's most significant concerns are discussed in detail below.

### **Contract Length**

The Select Parties' Recommendations include a recommendation to allow QFs the option to elect up to a 15-year contract term, with that contract term starting from the date of commercial operation. As a threshold matter, it is not clear whether the Select Parties are recommending that 15-year term only for QFs below the published avoided cost rate eligibility cap ("Cap"), or for all QFs regardless of size. The Select Parties' Recommendations do note that "[s]pecific provisions and processes may differ for QFs below and above the 5 MW size threshold for standard contract rates." The Select Parties Recommendations do not, however, indicate whether the 15-year recommended term applies to all QFs or only QFs above or below the Cap.

Avista is concerned that longer contract terms contract length could adversely impact customers—particularly with regard to larger QFs. The market for energy in the region has changed drastically over just the past few years and it is impossible to predict how that market will continue to change. This is particularly true given the prevalence of negative pricing in the region, the movement of some utilities to join certain energy imbalance markets, and the potential for the development of other organized markets in the region. Locking in prices for QFs in long-term contracts has the very real potential of, over the course of the term, exposing customers to excessive costs that deviate substantially from the utility's actual avoided cost. Such adverse impacts are particularly problematic when the utility is required to purchase the output from a QF

even when the utility does not have an actual resource need and when the utility has little or no ability to dispatch the QF.

The implications of mandating longer contract terms, including the potential for adversely impacting utility customers, should be thoroughly vetted through open discussion with all implicated utilities and other stakeholders. Any rules mandating contract term must balance the potential for adverse consequences to utility customers with other policy considerations.

### **Time Between Contract Execution and Initial Deliveries**

The Select Parties' Recommendations further exacerbate the potential for customers to be adversely impacted by longer-term contracts by recommending that a QF should have the right to select a commercial operation date three years from the date that the contract is executed. That three-year period means that utility customers will be exposed to prices set up to 18 years earlier, further increasing the likelihood that the avoided cost rates set in the contract do not reflect actual avoided costs of the utility at such later time. More fundamentally, that three-year period is effectively a free put option. If during that three-year period, the avoided cost rate stays the same or goes down, the QF simply sells its output pursuant to the terms of the contract. If, however, the avoided cost rate goes up significantly, many QFs can (and likely will) simply dissolve their current entity and re-emerge as a newly formed LLC. Because of the mandatory purchase obligation under PURPA, the utility will have no choice but to enter into a new contract at the higher price with such newly formed LLC.

As with other PURPA implementation issues, the issue of when a utility is required to enter into a contract with a potential QF should be thoroughly vetted through open discussion with all implicated utilities and other stakeholders.

### **Capacity and Energy Rates**

The Select Parties' Recommendations do not suggest a resolution for bifurcating capacity and energy pricing in PURPA contracts. In Avista's view, this is a very significant issue and it should be addressed at the same time as other PURPA issues (such as contract term, the Cap, etc.). As noted above, utilities are required to enter contracts with QFs, even if the utility has no resource need. Accordingly, in order to ensure that the price paid for the output accurately reflects the utilities avoided costs, it is imperative to separately price the energy and capacity provided by the QF. This issue, as well as any methodology for setting such prices, should be thoroughly vetted through open discussion with all implicated utilities and other stakeholders.

### **Conclusion**

Avista appreciates the opportunity to submit these comments on the Select Parties' Recommendations. These comments are not, and are not intended to be, exhaustive of all issues that need to be resolved in any Commission rulemaking regarding the implementation of PURPA; rather, these comments provide only a high-level overview of Avista's primary concerns with the Select Parties' Recommendations on those issues that are most likely to adversely impact the

Company's customers. There are several significant issues that need to be resolved, including contract length, the size of QFs that should be eligible for published avoided cost rates, and how to appropriately price energy and capacity provided by a QF. These issues should be developed in an open and collaborative process that affords all implicated utilities and other stakeholders an opportunity to participate. Avista has been, and continues to be, ready and willing to engage in open discussions to resolve these difficult issues in a manner that balances QF interests while ensuring that Avista's customers are not adversely impacted.

Please direct any questions regarding these comments to Clint Kalich at 509-495-4532 or [clint.kalich@avistacorp.com](mailto:clint.kalich@avistacorp.com), or Michael Andrea at 509-495-2564 or [michael.andrea@avistacorp.com](mailto:michael.andrea@avistacorp.com).

Sincerely,

*/s/Linda Gervais*

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