

Avoided Cost Rate Methodology for Power Purchases from Large Qualified Facilities

The Federal Energy Regulatory Commission (FERC) requires that electric utilities, including Avista, purchase energy and capacity from qualifying facilities (QFs) at rates that are just and reasonable to the electricity consumer and in the public interest. Avista is required to file and obtain approval from the Washington Utilities and Transportation Commission of its avoided cost rate methodology (Methodology) for QFs with capacity greater than five megawatts.¹ This document details the Methodology Avista employs when pricing a new or existing QF not eligible for contracts under Schedule 62.

Avista's Methodology considers six primary value categories. Each is valued on a per-MWh basis. A seventh category acknowledges potential additional value components. Avoided cost valuation for environmental attributes is not required; QF projects either retain their environmental attributes when Avista's next planned capacity addition is not a renewable resource, or grant them to the utility at no additional cost when Avista's next planned capacity addition is a renewable resource.²

Energy Value

In most cases energy rate schedules mirror the standard offering in Avista's Schedule 62.³ Where a QF generation shape varies significantly within the less-granular on-/off-peak periods of the standard offering, Avista will offer a more granular energy rate schedule ensuring the pricing reflects the actual avoided cost of energy (e.g., six four-hour pricing blocks each month).⁴

Peaking Capacity Value

Similar to Avista's energy forecast, peaking capacity value is based on the IRP and made in years where a QF contract avoids utility investment in such resources.⁵ Avista will update Schedule 62 where material resource acquisitions or reductions occurring affect the need for new capacity.⁶ In the unlikely event a QF resource has a generation profile not similarly defined in the IRP, Avista will re-run its IRP Reliability Assessment Model (ARAM) and determine a customized factor.

¹ WAC 480-106-050(5)

² See WAC 480-106-050(4)(c).

³ There are very few, if any, limitations on Avista's ability to transact in the wholesale energy marketplace. This favorable position means avoided energy prices are equivalent to the market prices of energy and, therefore, an IRP model need not be run to determine avoided energy costs.

⁴ No matter the periods offered to the QF, the value of energy will rely on energy values filed with the Commission in support of our small QF filing under Schedule 62.

⁵ For reporting purposes this value will be reported for a resource offering 100% of its contract capacity during Avista's peak load period defined as 0600-2200, Monday through Friday, during the months of November through February. Similar to Avista's energy forecast, the capacity value shall be the result of the base case, or equivalent, scenario from the IRP.

⁶ Changes potentially requiring an updated Schedule 62 filing include utility RFPs, asset retirements, and new QF contracts.

Environmental Attributes

To the extent Avista's capacity valuation contains renewable resource capacity, the utility shall make a claim to some or all of the environmental attributes of the QF project. Given the likelihood that utility acquisition plans will include both renewable and non-renewable assets, the amount of environmental attributes claimed shall be the simple average of the percentage of renewable resource nameplate capacity contained in the Peaking Capacity Value.

Import/Export Transmission

A QF resource impacts Avista's ability to deliver electricity to, and receive electricity from, the market. Transmission costs are lowered in some periods and increased in others by QF deliveries. In addition to Avista's hourly IRP market price forecast it records hourly market positions, thereby defining the transmission values of incremental deliveries for each energy rate schedule period. To the extent a QF does not displace a utility resource, it is credited for periods where incremental transmission use is reduced, and charged for periods where average transmission use is increased.

When not displacing a utility resource and where Avista has surplus owned or contracted transmission rights, the QF is credited or charged only for the delivery losses associated with its use. Again, when not displacing a utility resource, where Avista's transmission use exceeds the capacities of owned and contracted transmission rights, the QF is further credited when transmission use is reduced or charged when transmission use is increased. Both delivery losses and the transmission value are based on the tariffed rate Avista would pay.

Avista almost exclusively procures Bonneville Power Administration (BPA) transmission for short-term transmission needs. Therefore, incremental transmission costs are priced at projected BPA short-term point-to-point tariffed rates. The rate is increased using a forecast of the U.S. government's GDP deflator. Delivery losses are at present tariffed rate levels and remain constant throughout the contract.

Variable Energy Resource (VER) Integration Value

Variable Energy Resource (VER) integration charges reflects the consumptive, also known as load following or flex reserve, capacity unique to resources (e.g., wind, solar) having unpredictable intra-hour variability. Avista accounts for VER integration costs in its IRP and RFP resource analyses and applies the same costs to QF VERs. Where the QF VER displaces a utility-planned VER resource, no integration charge is applied. To the extent a QF VER does not displace a utility resource its payment is reduced by the VER integration charge. For periods where the QF contract extends outside of the timeframe for which Avista has a calculated VER charge, the charge is escalated using a forecast of the U.S. government's GDP deflator.

Contingency Reserves (CR) Value

Avista, like its utility peers, must carry contingency reserves equal to three percent of all on-line generation. As with VER integration costs, to the extent a QF does not displace a utility resource, Avista incurs additional and incremental CR. No market exists today for CR and so the cost is borne by other utility resources. To approximate the cost of CR, the lowest levelized per-kW cost

of a simple-cycle gas turbine cost contained in the utility's most recent IRP is used. The CR charge is escalated using a forecast of the U.S. government's GDP deflator.

Other Values

The vast majority of QF resources obtain full compensation through the five primary values detailed above. But in some rare instances a QF might enable Avista to avoid or incur additional costs. For example, a strategically sited QF might eliminate or defer transmission and/or distribution investments. Yet it is not possible to anticipate what these values might be given how many unique resources potentially could exist. Pursuant to FERC regulations, Avista considers the following factors to the extent it practicable:: 1) dispatchability, 2) outage coordination, 3) black start/emergency power, including load separation, 4) shorter development lead times, 5) contract or other legally enforceable obligation, including the duration of the obligation, termination notice requirement and sanctions for non-compliance, and 6) on-system transmission and distribution benefits, including losses.

Data Analytics and Public Information

To support the Methodology, with each Schedule 62 QF tariff filing Avista will file an Excel spreadsheet with data and an example resource for informational purposes only. The data included will be sourced from the most recent acknowledged IRP, or alternative Commission approved or directed source, as follows:

- 1) Hourly base case market energy prices
- 2) Hourly base case market positions
- 3) Hourly base case firm transmission utilization and surplus/deficit position
- 4) Peaking capacity value, and nameplate contribution of renewable resources
- 5) IRP peaking capacity contributions for all IRP generation options
- 6) VER integration values
- 7) CR values
- 8) Monthly net load/resource balance forecast
- 9) Monthly natural gas price forecast

Given the market sensitive nature of our forward positions, Avista submits its forecast of hourly market and firm transmission positions to the Commission as confidential information. All other data is non-confidential.