BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-13_____

PETITION OF AVISTA CORPORATION

ATTACHMENT C

NARRATIVE HISTORY OF THE ACQUISITION OF THE REARDAN PROJECT

A. Background

1 Avista's more recent experience acquiring renewable resources began in 2001, initiated by the requirement[1] in January 2002 that it offer its retail electric customers in Washington the opportunity to purchase a portion of their electricity from qualified alternative energy resources. The Company's plans for acquiring utility-scale wind energy moved forward with its 2003 Integrated Resource Plan (IRP), which called for the addition of 75 MW of nameplate wind capacity in the 2008 – 2010 timeframe. As a preparatory step, the IRP included the near-term action item to study wind integration to better understand the impacts, costs and overall potential for large wind additions to Avista's system. Accordingly, the Company issued a Request for Proposals in August 2003, calling for up to 50 MW of wind capacity to be delivered to Avista's system for a five-year term. The Company ultimately contracted for 35 MW of wind capacity from PPM Energy's Stateline project, commencing April 1, 2004. This purchase served both the customer alternative energy option, described above, and provided the wind-integration experience called for in the 2003 IRP.

2 Avista's outlook for acquiring renewable energy increased substantially through the development of its 2005 IRP. The Preferred Resource Strategy called for the acquisition of 400 MW of nameplate wind capacity by 2016, and an additional 250 MW by 2026. The strategy also called for up to 80 MW of other (non-wind) small, renewable resources by 2016. Since Avista did not face any renewable portfolio requirements at the time, the driving factor for this eight-fold increase in renewable capacity additions from 2003 was improving the price and risk balance in the Company's planned electricity portfolio, including:

- Hedging the potential future financial risk associated with carbon-emitting generation sources;
- Planning for expected load growth;

[1] RCW 19.29A.090, "Voluntary Option to Purchase Qualified Alternative Energy Resources".

- Lending portfolio price stability in response to forecast higher natural gas and wholesale electricity prices; and
- Taking advantage of the competitive price of renewable resources (the perceived low development costs for wind, combined with its price-risk hedge value, made wind and other renewable energy resources competitive with conventional electric generation).

3 To acquire these renewable resources, Avista began the exploration of potential wind sites across its service area, and issued a Request for Proposals in early 2006 to acquire up to 35 aMW of renewable energy. Avista received 14 bids from wind power developers proposing 1,190 MW of capacity and 430 aMW of energy. In addition, eight bids were received for other non-wind power renewable resources proposing 43 MW of capacity and 40 aMW of energy. Avista ultimately chose to purchase the output from 100 MW of nameplate wind capacity to be developed in South Central Washington. Avista worked closely with the developer through the balance of 2006 when several challenges arose with the project, the greatest challenge being the potential delay in the availability of wind turbines. Avista continued to work with the developer into 2007, coordinating with Staff of the Washington and Idaho Commissions, in an effort to finalize a competitive power-purchase agreement during a time when prices for wind energy were rapidly increasing. Avista's final purchase offer was rejected by the developer.

4 During the course of 2006 and 2007, the steady increase in demand for high-value wind sites in the Northwest, and the intensifying competition among utilities and developers for the shrinking pool of attractive sites, continued to drive the cost of wind resources higher. Avista's 2007 Integrated Resource Plan described these market conditions and the resulting 100 percent increase in wind resource costs over the prior six years, including the 50 percent increase in costs since 2005[2]. Avista had experienced this intense competition as it attempted to compete with other west-coast markets to secure a reasonably-priced wind resource for its customers. By the time Avista's 2007 Integrated Resource Plan was released, the demand for good wind-power sites had resulted in most

[2] 2007 Electric Integrated Resource Plan, Avista Utilities, page 8-5.

of the then-identified, economically-viable and readily-developable sites being fully developed, or in some stage of acquisition[3].

5 The immediate consequence of the increasing prices for wind resources was a 200 MW reduction in wind capacity called for in Avista's 2007 IRP, compared with its resource strategy in 2005. Even though wind energy had become more expensive, Avista's 2007 Preferred Resource Strategy continued to include substantial wind capacity additions based on the price-risk benefits it provided to the Company's planned electric portfolio. In calling for the addition of up to 300 MW of new wind capacity by 2017, Avista's 2007 Integrated Resource Plan described the portfolio drivers for the planned acquisition:

- Wind continued to provide cost-effective portfolio diversity and financial-risk mitigation;
- This mitigation value was primarily related to projected carbon legislation and forward fuel-price volatility for natural gas generation; and
- Planned acquisition amounts were driven by portfolio benefits as discussed in the 2007 IRP.

6 This analysis demonstrated that, although Avista was now subject to a future renewable requirement in its Washington service area, that requirement did not have a bearing on the wind capacity called for in Avista's 2007 Integrated Resource Plan. These planned renewable resource additions were justified based on the expected benefits to the Company's planned resource portfolio alone.

7 To cost-effectively acquire the renewable energy called for in its 2007 Preferred Resource Strategy, Avista continued its effort, launched in 2006, to explore and evaluate potential high-value wind sites primarily in its own service territory. This portion of Avista's renewables acquisition strategy focused on its service area in an effort to locate sites not already 'discovered' and placed in some phase of development, and to capture cost savings associated with avoiding non-Avista transmission charges. The Company made a range of investments in this effort, which included

[3] Id.

meeting with landowners and signing confidentiality agreements, licenses and leases for wind studies and potential project facilities. During these investigations, the Company explored sites near Grangeville, Idaho, and in the vicinity of the communities of Pomeroy, Colton and St John, in Washington. During this phase, Avista also engaged wind-project developers to evaluate possible purchase power agreements and site purchase options within its service territory. Avista met with developers who had acquired rights to build projects located near the Washington communities of Tekoa, Oakesdale, Farmington, Benge and Reardan. One of those projects, the Reardan Twin Buttes wind project, developed and owned by Energy Northwest, appeared to have significant potential value to Avista.

B. The Reardan Wind Project Site

8 Energy Northwest, a joint-operating agency and municipal corporation, began in 2001 to investigate the wind potential of an area along Magnison and Hanning Buttes, located about twenty miles west of Spokane, near Reardan, Washington. In 2002, Energy Northwest acquired the land rights to develop the project, and in 2003, contracted for a series of wind studies to determine the preliminary design and projected output for the site. The preliminary design projection, released in January 2004, included a project configuration with 33 General Electric machines, each with a 1.5 MW capacity, and an expected project capacity factor of 33.6 percent[4]. In February 2004, Energy Northwest signed a large generator interconnection agreement under Avista's FERC transmission tariff to study the transmission interconnection feasibility with Avista, and in 2005, filed a similar application with the Bonneville Power Administration. Energy Northwest continued development of the site and acquired the necessary Conditional Use Permits from Lincoln County, and completed baseline studies for wildlife, cultural resources, geotechnical conditions, communications system

[4] Preliminary Design Projected Output for the Edwall Area, Wind Consultant, LLC, prepared for Energy Northwest, page 11.

impacts and microwave beam-path impacts. Energy Northwest also received "Determinations of No Hazard to Air Navigation" from the Federal Aviation Administration. Although the Reardan project was initially sized for 50 MW, it was ultimately permitted for fifty wind turbines and not a specific MW capacity, as was most often the convention. This feature gave the developer a high degree of flexibility in determining its ultimate capacity (50 – 150 MW), based on the output of the wind machines used and the number installed.

9 In 2007, Avista began discussions with Energy Northwest about the possible purchase of the Reardan project. These discussions continued through early 2008, however, Energy Northwest decided to sell the project in a sealed bid auction. Avista submitted a bid for the project, which was selected as the winning offer. Avista and Energy Northwest negotiated a final purchase price of $2.28 million, and executed a purchase agreement for the project in May 2008. Shortly after its acquisition, Avista commenced the next phase of activities needed to optimize the project and ready it for construction. These included updating the micro-siting studies, renegotiating land leases, conducting community outreach, initiating contracting discussions with project constructors and wind turbine suppliers, and developing preliminary designs for the substation and transmission lines.

10 When the Reardan project was compared against 29 competing proposals for renewable energy offered by third-parties to Avista, it was demonstrated in Avista's view as the Company's least-cost option for securing a renewable resource for its customers, consistent with its 2007 Integrated Resource Plan[5]. Avista's acquisition of the Reardan project was also consistent with the renewable requirements in the State of Washington.

[5] April 21, 2010 Analysis of RFP Responses to 2009 Renewables RFP.

C. Avista's 2009 Integrated Resource Plan and Request for Renewable Resources

11 The Company's 2009 Integrated Resource Plan reflected the range of developments occurring in energy markets over the prior two years, and outlined changes in Avista's long-term resource planning. As part of its approach to acquiring renewable resources, the Company elected to release a Request for Proposals in 2009 to acquire up to 50 MW of additional northwest wind energy. The goals were to qualify resources for federal production tax credits expiring in 2012, and to capture the opportunity to acquire energy from high-value wind sites in the continuing competitive environment. Avista also planned to compare the renewable energy proposals it would receive in the Request for Proposals process against its Reardan project, either as a self-build or developer-built project.

12 On September 23, 2009, Avista released its Request for Proposals for up to 35 aMW of renewable energy (up to 100 MW of wind capacity) to be commercially available by the end of 2012. Since the proposals would be evaluated against the cost effectiveness of Avista's Reardan project, the Company hired an independent firm, Merrimack Energy Group, to conduct the review and evaluation of the proposals. Staff of both the Washington and Idaho Commissions reviewed and commented on drafts of the Request for Proposals document, and Avista's proposed methodology for evaluating the proposals. Staff of both Commissions were also present when the bids were opened, and were regularly updated throughout the review process, including any changes made to the evaluation criteria during the process. Twenty-nine bids were opened on October 23, 2009, including 24 proposals for qualifying wind resources with a total capacity of 2,210 MW, four proposals for solar projects with a capacity of 264 MW, and one proposal for 16 MW of biomass energy capacity.

13 Proposals were initially evaluated against eight basic requirements as part of the pre-determined scoring methodology. Only proposals that met all eight requirements were included in the next

phase of the process. Nine proposals advanced to the second round, which included the opportunity for bidders to meet Avista staff, discuss their projects, and respond to specific questions about their proposals. Six proposals advanced to the third phase of the evaluation process; results were presented to and discussed with Staff of the Washington and Idaho Commissions in early December 2009. Avista and the Washington Staff discussed next steps in the process, further issues of due diligence, and the manner in which the Reardan project would be compared with the third-party proposals. Merrimack continued with the third phase of the evaluation process, concluding with the identification of Avista's Reardan project (90 MW capacity self-build option) and a power purchase agreement for 56 MW of wind capacity, located in Avista's service territory, as the highest and second-highest scoring projects, respectively.

14 Even though the Reardan project was the least-cost option from the 2009 Request for Proposals, and Avista had planned to build the project by 2012, it continued to evaluate whether this timing was, on balance, in the best interest of its customers. Through the acquisition of Reardan, the Company had greater flexibility to assess the pros and cons of completing the project by 2012. In this respect, Avista derived at least three significant benefits from the Reardan project:

1. Locked-in access to a competitive, high-value wind site in its service area, directly connected to its system and near its largest load center;
2. Optionality to evaluate the timing of development and its likely impact on the overall cost-effectiveness for its customers; and
3. A hedge against wind-resource price premiums that had been charged by developers in the competitive market.

15 In early January 2010, the Company's senior management was briefed on the results of the Request for Proposals process and the potential benefits, risks and uncertainties associated with the planned acquisition of wind resources. Among the range of issues considered were the possibilities of federal or Idaho renewable portfolio standards, the improving efficiency and reliability of wind machines, and the likely future trends in then-current prices for development of wind projects. A

significant uncertainty was whether the then-existing federal and state tax incentives would ultimately be extended beyond 2012.

16 Based on the analyses and discussions, Avista decided in early 2010 to delay the construction of the Reardan project, as well as the acquisition of its second-ranked proposal for a power purchase agreement. In doing so, Avista ultimately determined that avoiding near-term rate impacts to customers outweighed the potential for higher, longer-term resource costs.

17 Avista continued to monitor wind development through 2010, which revealed an emerging softening in the forward price for construction of Northwest wind resources. By early 2011, Avista concluded that market prices had potentially moved downward enough to warrant another round of competitive bidding for projects that could be developed and commercially online by the end of 2012. The rationale for this new round of proposals was to determine whether prices had dropped to a point that, when coupled with the certainty of the substantial federal and state tax benefits, the rate impact to customers from the early acquisition of wind would be relatively small, and preferable to the risk of incurring significantly higher costs and uncertainty by delaying acquisition to the future.

D. Avista Acquires Output of the Palouse Wind Project

18 On February 22, 2011, Avista issued a Request for Proposals for up to 35 aMW of qualifying renewable energy with delivery to commence on or before December 31, 2012. The Company received 11 proposals for wind energy totaling 774 MW of capacity, and one proposal for 5 MW of capacity from a landfill gas project. Avista proceeded with the initial phase of screening the proposals and identified a shortlist of four developers, all of which offered wind resources. Avista did not include its Reardan project in the competitive bidding since the Request for Proposals process was fast-tracked to identify projects that could be completed and online prior to the end of 2012, when the significant state and federal tax benefits were set to expire.

19 The Reardan project, however, provided an effective hedge or benchmark for comparison against third-party proposals, as it had in Avista's 2009 Request for Proposals. After completing the subsequent rounds of screenings, negotiations, and final price and term offerings from the participating developers, Avista announced it had negotiated a 30-year power purchase agreement with Palouse Wind, LLC for the output of its 105 MW capacity Palouse Wind project. Located approximately 30 miles south of Spokane, the project would interconnect directly with Avista's 230 kV transmission system and would qualify for the renewable incentives set to expire in 2012. In addition, the project wind data indicated that it had an attractive capacity factor.

E. Avista Revises Long-Term Forecast of Need for Renewable Resources

20 The anticipated output of the Palouse Wind project was expected to closely match Avista's renewable resource need in 2016, as forecast in the Company's 2011 Integrated Resource Plan. However, the Reardan project was expected to fill Avista's need for new renewable resources forecast in the 2020 timeframe. In March of 2012, Avista announced a legislative achievement that significantly changed its long-term need for new renewable resources. The Company's Kettle Falls Generating Station, completed in 1983, was constructed to both take advantage of an abundant and inexpensive wood-waste fuel supply, and to help reduce the pollution caused by burning this waste in 'wigwam' burners at regional sawmilling sites. And, even though Kettle Falls was a pioneering biomass project that had already delivered significant environmental benefit to the region, the project was excluded from eligibility under the Washington Energy Independence Act because it was built before March 31, 1999. Avista believed strongly that its Washington and Idaho customers were entitled to receive the benefits from this renewable resource they had been paying for in their rates for well over two decades.

21 Beginning in 2008, Avista began working with stakeholders in the Washington legislature to champion an amendment to the law that would qualify the output of Kettle Falls as an eligible

renewable resource. After five years of diligent work with a host of parties, Avista was successful in having legacy biomass energy projects included as qualifying renewable resources under the Washington law. The biomass energy bill (SB 5575) was signed into law on March 7, 2012.

22 Following this change in the law, Avista analyzed the conditions attached to Kettle Falls qualifying as a renewable resource, such as the amount of wood-waste fuel supply used by Kettle Falls that comes from "old growth" forests. Late in 2012, Avista determined that based on expected continuing fuel supply sources for Kettle Falls, approximately three-fourths of the generation from Kettle Falls would qualify to meet the Washington RPS.

23 From a planning perspective, the inclusion of a major portion of the output of Kettle Falls as a qualifying renewable resource reduced Avista's long-term need for new renewable resources. Though the Company had planned, after acquiring the output of Palouse Wind, to maintain the land rights and permits necessary to develop the Reardan project in the 2020 timeframe, the addition of Kettle Falls meant there was no longer a need for the Reardan project within a timeframe that would support the costs associated with continuing to carry the Project for an extended period of time.

24 The Company's acquisition of the Reardan project provided Avista significant control over its renewable-acquisition decisions because Avista had locked-in the ability to develop a high-value wind resource as needed. Because Reardan gave the Company physical optionality over its resource acquisition decisions, it was able to delay acquiring renewables in 2010 and take advantage of much-lower costs for wind projects that emerged in 2011, while continuing to provide a renewable resource option into the future.

F. Avista's Planned Disposition of the Reardan Project

25 Avista is committed to lease agreements with local landowners related to the Reardan Project that extend through 2015. The annual cost of the leases is about $18,000, and in addition, the annual lease costs for two meteorological towers is approximately $2,000. Removal cost for the

meteorological towers is estimated to be $10,000. A summary of the total costs associated with the Reardan Project is provided in the table below.

Summary of Reardan Wind Project Development Costs

Initial purchase cost of Reardan Project	$	2,278,850
Construction Costs of Towers		189,740
Professional Services		990,722
Legal Costs		312,534
Employee Costs, Contract Labor and Other		122,476
Total Costs Incurred Through December 31, 2012		3,894,322
2013-2015 Lease Costs		60,000
Removal Costs of Towers		10,000
Total Costs of Reardan Wind Project (system)	$	3,964,322
Washington's Share	**$**	**2,586,324**

26 While all other permits for the project are intact, the Federal Aviation Administration 'No Hazard' certifications expired in July 2011. These certifications have an initial two-year effective period and provide the opportunity to file for a single two-year extension. Energy Northwest was granted the initial certifications for the project, and Avista successfully filed for, and received the extensions. In July 2011, Avista filed for what it believed to be a perfunctory re-certification of the no hazard determinations for the project, and was surprised when a new issue related to possible radar interference was raised during the Agency's review. Avista representatives and consultants engaged with Agency staff and determined that its applications would likely be more successful if they were re-filed after ongoing radar facility upgrades were completed, along with the findings of a new radar interference study. Accordingly, since Avista did not have a need for new renewable energy until the 2019 – 2020 timeframe, it withdrew its applications for later consideration.

27 With Avista's successful qualification of its Kettle Falls project as a qualifying renewable project under Washington law, and the resulting lack of any definitive future need for the Reardan Project, the Company has chosen to terminate the Project.