

Agenda Date: September 11, 2002
Item Number: A2

Docket: UE-021052
Company Name: Avista Corporation (Avista)

Staff: Hank McIntosh, Energy Section Staff

Recommendation:

Grant the temporary waiver of WAC rule 480-107-060 until July 2003, as Avista requests and order Avista to provide information as noted in the memo.

Introduction:

Avista Utilities (Company) filed an electric Least Cost Plan (LCP) in April 2001. WAC 480-10-060(2)(a) states "... The electric utility shall solicit bids for electric power and electrical savings in conjunction with its least cost planning schedule. The electric utility is required to file its draft request for proposal with the Commission within ninety days of the electric utility's filing of its final least cost plan." In a letter dated October 16, 2001, the Company requested a deferral of this WAC requirement for one year. The authority for such requests is WAC 480-107-170(3). By Commission order in Docket UE-011438 Avista was granted a waiver of the requirement until August 30, 2002.

Background:

Avista sold Centralia in 2000 and created a need for power. Pursuant to an RFP filing soon afterwards, Coyote Springs II was chosen to fill part of this need. Avista then filed a Least Cost Plan (LCP) in April 2000, triggering an obligation under WAC 480-107-060(2)(a) to issue another RFP.

Due to financial management concerns, Avista sold one-half the Coyote Springs II project to Mirant in December 2001. Other things equal, Avista would have been short of capacity in the middle of 2004. However, the Company arranged for 3-year forward power contract purchases starting in 2004, to cover this deficit. Therefore, the Company advises Staff that there is no shortfall in the time frame between the present and the year 2007. After examining a proforma loads-and-resources table, Staff agreed.

Discussions and Considerations:

Avista has provided Staff with recent load and resource tables which reconfirm that no need for power exists until 2007, and no significant need exists until 2008. Thus, there is no evidence that Avista is taking a risk with its obligation to serve its core load.

Recent power supply acquisitions were forward purchases. The average price of these forward power contract purchases is about \$32/mWh. Staff notes that this compares favorably with current

data on forwards in the 2004-2007 timeframe, and is reasonable with respect to the recently estimated levelized cost of combined cycle combustion turbines using gas at \$3.00/DThm. The most recent acquisition was for a small quantity of firm product in the 2007-2010 period at a slightly lower price.

Avista notes that it executed a Request for Proposals (RFP) in late 2000, so new market information will not differ much from that already obtained. This is because they are finishing construction of a combined cycle combustion turbine (CC CT), they have recently shopped for forward contracts, and Qualifying Facilities (QF) providers in Idaho have approached them. However, some facts still lead Staff to believe that continuing market price discovery is useful:

1. Because of an oversupply in new generation, there are fewer power plants going forward. This might signal the existence of under-subscribed product or financially distressed sellers. This could lower prices of new power plant contract or purchase opportunities.
2. Forward contracts remain stable and below the long run marginal cost of the CC CT.
3. Hydroelectric conditions are normal and gas commodity prices are moderate.

Although the price discovery process may be aided with an RFP now, there are several reasons which weigh against such an action. The first reason is that there is ample time for power supply acquisition after the next Least Cost Plan in early 2003. The second reason is that as the Company informs Staff, price discovery efforts are a routine, ongoing activity in its power supply department. Until a documented need for power exists, a formal RFP approach will not elicit serious bids and the informal process will be more cost-effective in procuring information.

Recommendation:

Staff recommends that the Commission grant the Company request for a delay until July 2003 by waiving WAC 480-107-060(2)(a). Staff further recommends that the Company provide the Commission Staff data which covers price discovery information for the period July 1, 2002, through June 30, 2003. This information should cover forwards of any length, day ahead opportunities, 30-day opportunities, and yearlong contracts. Also, a description of the current process of price discovery the Company undertakes as a routine matter should be provided along with an account of the analytical techniques used in assessing them.