

Agenda Date: February 15, 2002
Item Number: 2A

Docket: UE-011438(PW)
Company Name: Avista Corporation (Avista)

Staff: Hank McIntosh, Regulatory Consultant
Tom Schooley, Regulatory Analyst

Recommendation:

Allow the temporary waiver of WAC rule 480-107-060 until August 2002, as Avista requests and order Avista to provide information as noted in the memo.

Background:

Avista Utilities (Company) filed an electric Least Cost Plan 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 of 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). 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. The letter was composed at a time when Avista was considering the sale of assets under construction due to Company exposure to unusually high market price volatility.

Discussions and Considerations:

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 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 agrees.

Staff does not have an RFP against which to benchmark Avista's 3-year forward purchase. The average price of these forward power contract purchases is about \$32/mWh. Staff notes that this is consistent 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.

Although Avista asserts in its letter that an RFP would not gather much new market price information, some developments make Staff believe that this might not be the case:

1. Because of a change in demand, there are fewer power plants going forward and so lead times for turbines are reduced. This could lower costs of new power plants.
2. Gas forwards and electric forwards have stabilized.
3. Hydroelectric conditions have improved and gas commodity prices have fallen.

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 August proposal. The second reason is that the Company informs Staff that price discovery efforts are a routine, ongoing activity in its power supply department and that until a documented need for power exists, a formal RFP approach will not elicit serious bids. The third reason is that an RFP requires time and resources which Avista needs to employ elsewhere until August.

Recommendation:

Staff recommends that the Commission grant the Company request for a delay until August 2002 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 December 31, 2001, through August 30, 2002. This information should cover forwards of any length, day ahead opportunities, 30-day opportunities, and year-long contracts. Also, a description of the usual process of price discovery the Company undertakes as a routine matter should be provided.