Revised memorandum

Agenda Date: December 28, 2001
Item No.: 2A

Docket: **UE-011591**
Company Name: Avista Utilities

Staff: Graciela Etchart, Regulatory Analyst
Thomas Schooley, Regulatory Analyst
Joelle Steward, Regulatory Analyst

Recommendation:

Approve the tariff revisions in Docket UE-011591, pursuant 19.29A(5) RCW as filed, with effective date January 1, 2002. Direct the Company to file a special report by May 15, 2002, showing actual costs and rate of customer participation through April 30, 2002.

Background:

In 2001, the Washington legislature approved EHB 2247, adding a new section to chapter 19.29A RCW that directed each electric utility to provide to its retail customers a voluntary option to purchase qualified alternative energy resources beginning January 1, 2002. The Legislature defined generation facilities as: (a) wind; (b) solar energy; (c) geothermal energy; (d) landfill gas; (e) wave or tidal action; (f) gas produced during the treatment of wastewater; (g) qualified hydropower (generated by fish-friendly facilities); or (h) biomass energy based on solid organic fuels from wood, forest, or field residues, or dedicated energy crops that do not include wood pieces that have been treated with chemical preservatives.

The option provided by EHB 2247 allows customers to purchase green energy resources at fixed or variable rates and for fixed or variable periods of time. A utility may provide qualified alternative energy resource options through either resources it owns or contracts for or the purchase of credits issued by a clearinghouse or other system that has qualified alternative energy resources.

The new statute also directs that all costs and benefits be allocated only to the customers who voluntarily choose the green option. Each investor-owned utility must report annually to the Commission, beginning October 1, 2002, until October 1, 2012, describing the option offered, the rate of customer participation, the amount of qualified alternative resources purchased by customers, and the amount of utility investments in qualified alternative energy resources.

Under the name "buck-a-block," Avista will sell wind power, priced in blocks of $1.00. Each $1.00 block equals 55 kilowatt hours (kWh). Under this program, customers may consider one of two purchase approaches. They may elect to purchase wind power in one or more monthly blocks with no linkage to their energy usage. Alternatively, customers may buy blocks to cover a selected percentage of their average monthly load. All customer classes may participate in this program and there is no limit on the number of blocks a customer may purchase.

Discussion:

(1) The product – Avista will contract with PacifiCorp Power Marketing to purchase output from its Stateline Wind Facility on the Oregon-Washington border. This sales agreement would specifically provide for the delivery of wind power to Avista's system to support customer purchases under the program. Wind power will be delivered to Avista within one year of when the energy was purchased by the customer. The contract is for a minimum of 1 aMW per year for three years, commencing January 1, 2002.

Although not required by legislation, Avista is seeking "certification" of the program as renewable energy from Renew 2000. Renew 2000 is a national accreditation group of environmental organizations, utilities, and other interested parties. The Company expects the certification to support marketing efforts and will facilitate allied marketing by environmental organizations. Although Renew 2000's existing guidelines require that the minimum block size be 100 kWh, the group has determined that Avista's minimum 55 kWh block is "certifiable" if, on average, participating residential customer usage is greater than 150 kWh.

(2) Marketing – Avista intends to have its marketing "roll-out" in late January 2002, with joint marketing in eastern Washington and northern Idaho. The Company intends to let all customers know about the product's availability while focusing its "advertising" efforts on certain target markets. The former will be accomplished through billing inserts and media releases. Based on an E-Source report[1], the Company plans to send letters to certain customers—to be identified through certain databases—who may have an interest in environmental products. These customers may be more predisposed to support wind power and would likely consider their purchase from a "percentage of load" perspective. This targeted segment of the customer population adds up to about 10 percent of the total residential customers.

The Company is examining, among other marketing tactics, underwriting local National Public Radio (specifically with a wind message tag line), placing small display ads in weekly newspapers, and focusing activity in college towns. The Company is also exploring joint marketing efforts with local environmental organizations (e.g., letters to their memberships) in late January or early February. With this combined marketing strategy, Avista expects to attain a

1 E-Source is a unit of The McGraw Hill Companies that provides member organizations with information of retail energy markets, services, and technologies.

market penetration rate of about 5 percent of the targeted residential segments, around 0.5 percent of the total residential population, and about 0.25 percent of the commercial customers. Altogether, this represents 0.87 percent penetration of customer classes.

(3) Cost – Approximately $150,267 in incremental revenue is estimated to result from this offering. All incremental revenue will be applied to program costs. The Company arrived at the size of the block by dividing $1 by the incremental cost of the wind power, as follows:

Wholesale Cost	0.035	$ per kWh
A&G (Mktg) Cost	0.005	$ per kWh
Total Cost	0.040	$ per kWh
Embedded Energy Cost	0.022	$ per kWh
Incremental Cost (Premium)	0.018	$ per kWh
Retail Pricing	55.6	kWh per block
	$ 1	per block

On December 3, 2001, Avista filed a general rate case (Docket UE-011595), requesting an average increase of 37.4 percent over its general business revenues for electric services. In light of the general rate case filed by the Company, Staff would like to analyze the actual costs of this program in the context of the general rate case. Consequently, Staff would like to receive a special report on the performance of the program during its first four months, including, at least, actual costs of the program as well as the actual rate of customer participation.

Considerations and Recommendations:

Staff recommends that the tariff revisions in Docket UE-011591 be approved as filed, with effective date January 1, 2002, pursuant 19.29A(5) RCW. Staff also recommends that the Company be directed to file a special report by May 15, 2002, showing actual costs and rate of customer participation through April 30, 2002.