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VIA: Electronic Mail

David Danner
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Additional Comments of Avista Utilities - Docket No. UE-110667

Dear Mr. Danner,

On June 24, 2011 the Washington Utilities and Transportation Commission (UTC or Commission) issued a "Notice of Work Session and Opportunity to File Written Comments" in the above-referenced Docket. The Company provided comments on July 15, 2011. On July 29, 2011 the Commission issued a "Notice of Opportunity to File Additional Comments" also in the above-referenced Docket. The Washington State House of Representatives Technology, Energy and Communications Committee (TEC Committee), and the Commission are conducting a study related to the development of distributed energy in areas served by investor-owned electric utilities. Specifically, the TEC Committee has asked the Commission to provide to the Legislature background information and detailed discussion of options to encourage the development of cost-effective distributed energy in areas served by investor-owned utilities, as well as the opportunities and challenges facing investor-owned utilities and their ratepayers in developing distributed energy in this State.

The Company appreciates the opportunity to provide additional comments on the “Potential for Distributed Energy in Washington State”, in addition to its participation in the Work Session on July 25, 2011. The Company’s response to the Notice is provided below:

1. How the Commission should define DG for the purpose of the study, and whether the Legislature should define DG differently than in RCW 19.285.030(9)

Avista Response: RCW 19.285.030 (9) defines distributed generation (DG) as “eligible renewable resource where the generation facility or any integrated cluster of such facilities has a generating capacity of not more than five megawatts.” This definition falls short of a comprehensive definition for purposes of distributive generation. The present definition limits DG to “eligible renewable resources” to conform to the intent of RCW 19.285 and its support of renewable energy development. However, many DG resources are not renewable, meaning that the definition in 19.285.030 (9) is too limiting for purposes of the study.

The second oversight of RCW 19.285 on DG was to not define “megawatts.” Megawatts can be measured either as “direct current”, or “DC”, or “alternating current”, or “AC”, power. Most electrical generators and associated facilities generate AC power; however, given the RCW 19.285 focus on renewable generations systems, many of which like solar create DC current, a reference to the current type would have been useful. For example, solar systems can have DC ratings approaching or exceeding 15% more of AC output.¹

For the purposes of the Commission study, and to enhance RCW 19.285, the definition of DG should be modified to read “a generation facility or any integrated cluster of such facilities having a generating capability of not more than five megawatts of alternating current as measured at the point of interconnection with the electricity system.”

¹ The difference between a solar system’s DC and AC output is the energy consumption associated with the conversion from DC to AC.

2. The purpose or goal of distributed generation in Washington, particularly in areas of the state served by investor-owned utilities, and how the goal or goals should assist the Commission and the Legislature identify appropriate administrative or legislative proposals to encourage distributed generation.

Avista Response: The purpose of Commission and legislative action on DG should be to ensure its societal value is accurately reflected in policy. Current state law and DG advocates do not correctly reflect its value.

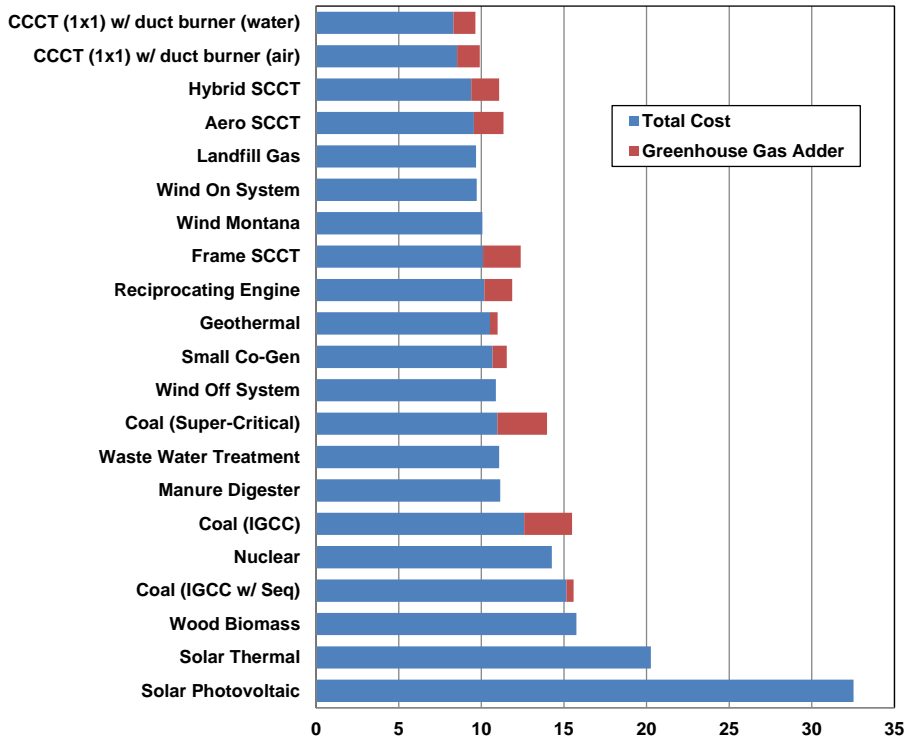
Avista does not largely share the opinions of many parties on the premium attributable to DG relative to central-station power. Central station power has served the needs of society in a reliable and cost-effective manner for over 100 years absent significant DG. There is no dispute that DG has the potential, where implemented in a manner that does not compromise grid reliability or substantially increase costs, to bring modest societal benefits beyond central-station power. Although difficult to quantify, the purported benefits fall into the categories of a) increasing energy security and reliability, b) local jobs, c) reduced transmission and distribution losses, and d) promoting emissions-free generation. However, the proponents of DG greatly overstate its benefits at the expense of central-station power and energy efficiency.

Given the complexities associated with quantifying the DG benefits described above, Avista recommends that the Commission and Legislature again look to the Northwest Power and Conservation Council (NPCC) for guidance.² These DG benefits mirror the societally least-cost new resource option—conservation. To account for these otherwise un-quantified benefits, the NPCC includes a ten percent (10%) benefit or adder for the resource relative to the traditional least-cost central-power generation station. Today’s least-cost central power stations, including both traditional thermal-based and wind, approach one-hundred dollars

² The conservation targets of RCW 19.285 rely heavily on the NPCC.

(\$100) per MWh. See the following table from Avista’s forthcoming 2011 Integrated Resource Plan.³

Central-Station Power Lifecycle Levelized Costs (c/kWh)



Applying a 10% adder to least-cost central power stations would bring the total societal value of DG to approximately eleven cents (\$0.11) per kWh, or one cent (\$0.01) per kWh above the value of central-station power. This premium is only a modest fraction of existing law and advocate proposals.⁴ State law and Commission directives should be modified to reflect the lower NPCC-derived value.⁵

³ Scheduled release date is late August, 2011.

⁴ Current state law (2010 SB6658, 2009 SB6170, and 2005 SB5101) provides tax incentives of between \$0.12 and \$1.08 per kWh for DG, or between 1.2 and 10.8 times existing central-station power plant cost estimates. DG proposals drafted for the state legislature (e.g., 2010 HB1086) have proposed feed-in tariff rates at similar levels, shifting the cost of these programs from taxpayers to utility customers.

⁵ Short-term incentives above \$0.01/kWh might be warranted for short periods of time to encourage a market for DG to materialize; however, DG technologies are not new and large incentives both in Washington and other states have not brought cost-competitive technologies to market. Given the characteristics of DG, and its lack of economies of

If you have any questions regarding these comments, please contact Clint Kalich at 509-495-4532 or myself at 509-495-4975.

Sincerely,

/s/Linda Gervais

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scale, Avista does not believe DG will be competitive with central-station power absent a major technological breakthrough that is not evident today.