

Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170



Corp.

May 13, 2005

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive S.W.
Olympia, WA 98504-7250

Re: Least Cost Planning Rulemaking, WAC 480-100-238
(Docket No. UE-030311)
Least Cost Planning Rulemaking, WAC 480-90-238
(Docket No. UG-030312)
Chapter 480-107 WAC Rulemaking
(Docket No. UE-030423)

Dear Ms. Washburn:

Thank you for the opportunity to provide comments regarding proposed revisions to the electric and natural gas least cost planning rules and the electric bidding rule in the above-cited dockets. The Company submits its comments in two parts. First, Avista suggests modifications in legislative format to the proposed rule revisions with supporting explanation. Thereafter, we discuss policy considerations of the proposed rules relative to potential scenarios for acquiring resources with long-lead times, or those that could overlap several two-year IRP and bidding cycles.

PART 1: WAC 480-100-238 AND WAC 480-90-238, LEAST COST PLANNING

Avista suggests that the word "exhaustive" be removed in that its meaning may be subject to future conjecture. Its inclusion is not necessary because it is repetitive to the term "detailed analysis." The Company recommends that "reasonable" be added to the analysis of all alternative resources. For example, a detailed analysis of nuclear fusion power may not be the best use of industry efforts. The Company proposes the following language modification:

(2)(b) "Lowest reasonable cost" means the lowest cost resulting from a ~~an~~ ~~exhaustive and~~ detailed analysis of all reasonable alternative sources and mixes of supply,...

The Company supports analysis of end-use consumption of electricity and natural gas. However, the language in the proposed rule would involve significant analysis without providing additional information to drive decisions with any greater benefits. "Changes

in the number, type, and efficiency” is synonymous with econometric modeling requiring load data not currently available to Avista. To perform this study would be costly. Therefore, the Company recommends the following modification:

(3)(a) A range of forecasts of future demand ... that examine the effect of economic forces on the consumption of electricity [“natural gas” for 480-90-238] ~~and that address changes in the number, type, and efficiency of electrical end uses that recognizes trends in end-use consumption.~~

The Company appreciates the need for a stated IRP time period. The proposed rule revisions appear to make the two-year cycle a “hard deadline.” The Company would like to discuss this with Staff and interested parties at the June 9th Workshop. This appears to put a greater burden on Staff and the Commission to process the IRP and the acknowledgment letter in a timeframe sufficient to inform the next planning cycle. Furthermore, it is not clear to the Company that this allows for resubmittal of a plan that requires more attention in defined areas. Lastly, to date utilities with multi-state operations have coordinated IRP submissions with some flexibility. It is not clear if this flexibility is weakened by the proposed revision. However, these concerns may be addressed by the language “[u]nless otherwise ordered by the Commission.” Discussion of this at the upcoming workshop may resolve the Company’s timing concerns. As a placeholder, the Company recommends the following:

(4) Timing. Unless otherwise ordered by the commission, each electric [“natural gas” for 480-90-238] -utility must submit an IRP within two years after the date on which the previous plan was filed with the Commission. ~~Not later than 16 months prior to the due date of a plan, the utility must provide a work plan for Commission review.~~

Part (7) of the proposed rule includes several concepts. For readability purposes, the Company suggests the following:

(7) The Commission will consider the information reported in the integrated resource plan, along with other available information, ~~at a public hearing on the plan and~~ when it evaluates the performance of the utility in rate and other proceedings. The Commission will convene a public hearing or hearings to address the IRP.

PART 1 (Continued): CHAPTER 480-107, WAC

The Company recommends that the ability for a utility to acquire resources outside of the request for resources (RFP) process be affirmed. Avista recommends the following modification:

WAC 480-107-001 (1) The rules in this chapter require utilities to solicit bids, rank project proposals, and identify any bidders that meet the minimum selection criteria. The rules in this chapter do not establish the sole procedures electric utilities must use to acquire new resources. Electric utilities may construct electric resources, operate conservation programs, purchase power through negotiated contracts, or take other action outside of an RFP process to satisfy their public service obligations.

WAC 480-107-003 is referenced as containing new language on page 14 of the April 24th Notice. No corresponding section is included in the text.

Avista recommends a series of "housekeeping edits." These are as follows.

WAC 480-107-007 (2) "Avoided costs" means the incremental costs to an electric utility for ~~electric energy, and~~ electric energy, and electric capacity, ~~or both~~, that the utility would generate itself or purchase from another source, but for purchases to be made under these rules. Avoided cost is identified as the minimum bid that meets the criteria specified in the Request for Proposal, or is estimated from data in the utility's most recent Integrated Resource Plan.

(3) "Back-up power" means electric energy ~~and~~ and capacity supplied by an electric utility to replace energy and capacity ordinarily supplied by utility-owned generation or purchased through contracts that is unavailable due to an unscheduled outage.

(14) "Interruptible power" means electric energy ~~and~~ and capacity supplied to an electric utility by a generating facility, the availability of which may be interrupted under certain conditions.

(16) "Maintenance power" means electric energy ~~and~~ and capacity supplied by an electric utility during scheduled outages of a generating facility.

(21) "Resource Block" means the ~~amount~~ amount ~~of~~ of capacity and associated energy that ~~the IRP shows for the near term~~ is identified in the IRP.

(25) "Utility subsidiary" means a legal entity, other than a qualifying facility, that is owned, in whole or in part, by an electric utility, and that may enter into a power or conservation contract with that electric utility.

WAC 480-107-015 (1) Participants in the solicitation process may include:

(a) Any owner of a generating facility, developer of a potential generating facility, or provider of energy savings ~~may participate in the RFP process~~. Bidders may propose a variety of energy resources: eligible electrical savings associated with conservation measures; electricity from qualifying facilities; electricity from independent power producers; and, at the utility's election, electricity from utility subsidiaries, and other electric utilities, whether or not such electricity includes ownership of property. Qualifying Facility producers with a generation capacity of one MW or less may choose to participate in the utilities standard tariffs without filing a bid.

(2) Timing of the solicitation process.

(a) An electric utility must submit to the commission a ~~draft proposed RFP request for proposals~~ and accompanying documentation no later than ninety days after the utility's integrated resource plan is due to be filed with the commission. Interested ...

(3) In addition to the solicitation process required by these rules, an electric utility may, at its own discretion, issue a RFP that limits project proposals to resources with specific characteristics. In addition, an electric utility, at its own discretion, may issue RFP's more frequently than required by this rule, or acquire resources outside of this rule.

WAC 480-107-025 (1) The RFP must specify the resource block, the initial estimate of long-term avoided cost schedule as calculated in WAC 480-107-055, Avoided cost schedule for projects under one MW in accordance with PURPA, and any additional information necessary for potential bidders to make a complete bid.

The Company suggests that processing of confidential information be clarified as proposed below.

WAC 480-107-035 (3) After the project proposals have been opened for ranking, the electric utility must make available for public inspection at the utility's designated place of business a summary of each project proposal and a final ranking of all proposed projects. Such summary shall not be required to display information deemed confidential by bidders.

Different generating sources have unique cost profiles based on the resource and its operation. The following proposed modifications recognize that the specific characteristics of each bid need to be reviewed and analyzed.

WAC 480-107-045 (1) Once project proposals have been ranked in accordance with WAC 480-107-035, Project ranking procedure, the electric utility must identify the bidders that best meet the selection criteria and that are expected to produce the energy, capacity, and/or electrical savings as defined by that portion of the resource block to which the project proposal is directed.

(3) The bid's price, pricing structure, and terms are subject to negotiation, and shall reflect the specific characteristics of the bid such as economic dispatch capabilities. If a qualifying facility or other generating facility agrees to be operated under economic dispatch, then the electric utility will adjust the price bid by operating performance adjustments, such as the project's equivalent availability factor. The methodology for such performance adjustments must be explained in the electric utility's RFP submittal.

WAC 480-107-055 (1) On an annual basis, an electric utility must file an avoided cost schedule for the energy and capacity associated with the resource block the

electric utility solicited in its most recent RFP filed pursuant to WAC 480-07-025, Contents of the solicitation.

(2) Avoided cost schedules filed within 12 months after an RFP will be based directly on the bids received pursuant to that RFP, unless such bids are deemed inadequate by the utility for establishing avoided cost rates in which case (3) below shall be used.

(3) Avoided cost schedules filed more than 12 months after an RFP will be based on estimates included in the utility's current integrated resource plan filed pursuant to WAC 480-100-238 and the results of the most recent bidding process. The electric utility must file documentation supporting its estimated avoided cost schedule.

(6) For QF projects rated at one megawatt capacity or less, the most recently approved long-term avoided costs will be the basis for prices offered. Adjustments of this schedule may be based on the specific characteristics of the QF resource such as seasonality of deliveries, intra-day timing of the deliveries, and firmness of the delivery.

The following proposed modifications are meant to improve clarity of the proposed rule revisions.

WAC 480-107-075 (3) The electric utility shall not enter into ~~may sign~~ contracts with a term exceeding for any appropriate time period specified in a selected project proposal for up to a twenty-years term unless contract terms beyond twenty-years. ~~The utility may sign longer term contracts if such provisions are specified in the utility's RFP.~~

WAC 480-107-095 (1) Obligation to purchase from qualifying facilities. Any owner of a generating facility or developer of a potential generating facility may participate in the bidding process. Qualifying facility developers proposing projects with a design capacity of one megawatt or less may choose to receive a purchase price for power based on avoided energy and capacity costs as identified pursuant to WAC 480-107-055, Avoided cost schedules. Such QFs are not required to participate in the RFP process.

In the following proposed modification, a sentence that is repetitive is removed.

WAC 480-107-125 ~~(1) Obligation to pay.~~ Any costs of interconnection are the responsibility of the owner or operator of the generating facility entering into a power contract under this chapter. The electric utility must assess all reasonable interconnection costs it incurs against a generating facility on a nondiscriminatory basis.

~~(2) Reimbursement of interconnection costs. The generating facility must reimburse the electric utility for any reasonable interconnection costs the utility may incur. Such~~ The project owner may reimbursement may be the utility over

an agreed period of time, but not greater than the length of any contract between the utility and the generating facility.

PART 2: INTERPRETATION OF PROPOSED RULES REGARDING RESOURCES WITH LONG LEAD-TIMES

The Company's following comments are intended to ensure that the structure of the IRP and bidding rules will accommodate the acquisition of resources with long-lead times.

The IRP and bidding rules require the development of resource plans and initiation of competitive bidding every two years. These proposed rules and timeline best match-up with "short lead-time" resources that can be contracted or acquired within a two-year period. Examples of these short lead-time resources might include natural gas fired thermal generation, wind generation projects, small resource projects, and demand-side management.

"Long lead-time" resources are also considered in the IRP process. Avista wishes to specifically address how long lead-time resources will be incorporated under the proposed revised rules. The purpose in raising this discussion is to ensure that different resource acquisition scenarios are adequately addressed by these proposed rules.

Long lead-time resources, such as coal plants and other resources that may involve substantial transmission infrastructure additions, require several years to develop. Such resource projects generally require a process of "due diligence" which in turn requires a significant level of funding to complete. The due diligence process is essentially equivalent to a bidding process. Therefore, utilities would generally choose a due diligence process for evaluation of those long lead-time resources and choose a bidding process for evaluation of short lead-time resources identified in their resource plans. Long lead-time resources with due diligence processes will necessarily span multiple IRP two-year cycles. Also, as contemplated in the rule, utilities may also choose to acquire resources outside of either the due diligence or the bidding process.

The due diligence process steps may include site selection, preliminary engineering, and permitting and may require three to four years to complete. In addition, because of the substantial funding levels required to work through the due diligence steps, developers are unlikely to fund a project to the point that initial engineering and permitting are complete (for both the project and the associated transmission) without the financial participation of potential purchasers of the project output. Therefore, long lead-time projects will potentially require the participation of more than one utility purchaser, including some significant investment of time and capital on their part, in order to become developed enough for complete consideration as a potential resource suitable for acquisition.

Avista believes that the proposed rule revisions should be compatible with both short lead-time resource acquisition and long lead-time resource acquisition. Both resource acquisition types are included in Avista's, as well as other utilities', IRPs. Under the rule, as stated earlier, Avista envisions that short-lead time resources would generally be sought out under a bidding process, while long lead-time resources would be assessed under a due diligence process. Both of these similar processes should lead to the selection of resources of the types and quantities generally laid out in the Company's IRP.

Bidding processes, due diligence processes, as well as other resource acquisitions conducted by the Company, each provide pricing/cost information which will inform the Company with regard to the actual cost of various resource types in the market for use in ongoing planning. Both the bidding and the due diligence processes are envisioned to provide an opportunity for stakeholder review of analyses and documentation that led to specific resource acquisition decisions. The bidding process provides for involvement by stakeholders, Commission Staff and the Commission in the development of the bidding documents and procedures. During the bid review process, Commission Staff has opportunity for review of bid evaluation and assessments. Similarly, the documentation associated with a long lead-time due diligence processes should be presented to the Commission, Commission Staff and stakeholders, for review and comment as to the reasonableness and completeness of the due diligence process.

Therefore, the Company believes that the similar bidding and due diligence processes should provide for the cost-effective acquisition of both short lead-time and long lead-time resources. The bidding and due diligence processes should also both provide for meaningful involvement of Commission, Commission Staff and stakeholders.

Thank you for the opportunity to comment on these proposed rules. Please direct any questions on this matter to Clint Kalich at (509) 495-4532 or Bruce Folsom at (509) 495-8706.

Sincerely,

A handwritten signature in black ink that reads "Kelly Norwood". The signature is written in a cursive, flowing style.

Kelly Norwood,
Vice-President, State and Federal Regulation