

DRAFT



2015 Electric Integrated Resource Plan

August 31, 2015



Safe Harbor Statement

This document contains forward-looking statements. Such statements are subject to a variety of risks, uncertainties and other factors, most of which are beyond the Company's control, and many of which could have a significant impact on the Company's operations, results of operations and financial condition, and could cause actual results to differ materially from those anticipated.

For a further discussion of these factors and other important factors, please refer to the Company's reports filed with the Securities and Exchange Commission. The forward-looking statements contained in this document speak only as of the date hereof. The Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the Company's business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Table of Contents

1. Executive Summary	1-1
Resource Needs.....	1-1
Modeling and Results.....	1-2
Electricity and Natural Gas Market Forecasts.....	1-2
Energy Efficiency Acquisition	1-4
Preferred Resource Strategy	1-5
Greenhouse Gas Emissions	1-8
Action Items.....	1-10
2. Introduction and Stakeholder Involvement	2-1
IRP Process	2-1
2015 IRP Outline	2-4
Regulatory Requirements	2-6
3. Economic Analysis & Load Forecast	3-1
Introduction & Highlights	3-1
Economic Characteristics of Avista’s Service Territory.....	3-1
IRP Long-Run Load Forecast	3-14
Monthly Peak Load Forecast Methodology.....	3-21
Simulated Extreme Weather Conditions with Historical Weather Data	3-22
Testing for Changes in Extreme Temperature Behavior.....	3-26
4. Existing Supply Resources	4-1
Introduction & Highlights	4-1
Spokane River Hydroelectric Developments	4-2
Clark Fork River Hydroelectric Development.....	4-4
Total Hydroelectric Generation	4-4
Thermal Resources.....	4-4
Power Purchase and Sale Contracts	4-6
Customer-Owned Generation	4-10
Solar	4-11
5. Energy Efficiency & Demand Response	5-1
Introduction.....	5-1
The Conservation Potential Assessment	5-2
Overview of Energy Efficiency Potential	5-5
Conservation Targets.....	5-7
Energy Efficiency-Related Financial Impacts.....	5-8
Integrating Results into Business Planning and Operations	5-9
Demand Response.....	5-12
Generation Efficiency Audits of Avista Facilities	5-16
6. Long-Term Position.....	6-1
Introduction & Highlights	6-1
Reserve Margins	6-1
Energy Imbalance Market	6-9
Balancing Loads and Resources	6-10
Washington State Renewable Portfolio Standard.....	6-12
7. Policy Considerations.....	7-1
Environmental Issues.....	7-1
Avista’s Climate Change Policy Efforts	7-3
8. Transmission & Distribution Planning	8-1
Introduction.....	8-1
FERC Transmission Planning Requirements and Processes.....	8-2
BPA Transmission System.....	8-4
Avista’s Transmission System	8-4
Transmission System Information.....	8-6
Distribution System Efficiencies	8-8

9. Generation Resource Options.....	9-1
Introduction.....	9-1
Assumptions.....	9-1
Natural Gas-Fired Combined Cycle Combustion Turbine.....	9-3
Hydroelectric Project Upgrades and Options.....	9-13
Thermal Resource Upgrade Options.....	9-16
Ancillary Services Valuation.....	9-17
10. Market Analysis.....	10-1
Introduction.....	10-1
Marketplace.....	10-1
Fuel Prices and Conditions.....	10-6
Greenhouse Gas Emissions and the Clean Power Plan.....	10-10
Risk Analysis.....	10-12
Market Price Forecast.....	10-19
Scenario Analysis.....	10-25
11. Preferred Resource Strategy.....	11-1
Introduction.....	11-1
Supply-Side Resource Acquisitions.....	11-1
Resource Deficiencies.....	11-2
Preferred Resource Strategy.....	11-7
Efficient Frontier Analysis.....	11-17
Determining the Avoided Costs of Energy Efficiency.....	11-21
Determining the Avoided Cost of New Generation Options.....	11-22
12. Portfolio Scenarios.....	12-1
Introduction.....	12-1
Other Resource Scenarios.....	12-11
Resource Tipping Point Analysis.....	12-14
13. Action Items.....	13-1
Summary of the 2013 IRP Action Plan.....	13-1
2015 IRP Two Year Action Plan.....	13-4
Production Credits.....	13-5

Table of Figures

Figure 1.1: Load-Resource Balance—Winter Peak Load & Resource Availability	1-2
Figure 1.2: Average Mid-Columbia Electricity Price Forecast	1-3
Figure 1.3: Stanfield Natural Gas Price Forecast.....	1-4
Figure 1.4: Cumulative Energy Efficiency Acquisitions	1-5
Figure 1.5: Efficient Frontier	1-7
Figure 1.6: Avista’s Qualifying Renewables for Washington State’s EIA.....	1-8
Figure 3.1: MSA Population Growth and U.S. Recessions, 1971-2014.....	3-2
Figure 3.2: MSA Population Growth, 2007-2014.....	3-3
Figure 3.3: MSA Non-Farm Employment Breakdown by Major Sector, 2014.....	3-4
Figure 3.4: MSA Non-Farm Employment Growth, 2007-2014	3-4
Figure 3.5: MSA Personal Income Breakdown by Major Source, 2013	3-5
Figure 3.6: MSA Real Personal Income Growth, 1970-2013	3-6
Figure 3.7: Forecasting IP Growth.....	3-10
Figure 3.8: Industrial Load and Industrial (IP) Index	3-10
Figure 3.9: Population Growth vs. Customer Growth, 2000-2014	3-11
Figure 3.10: Forecasting Population Growth.....	3-12
Figure 3.11: Long-Run Annual Residential Customer Growth	3-14
Figure 3.12: Load Scenarios with PV Shocks	3-17
Figure 3.13: Load Growth Scenarios with PV Shocks.....	3-17
Figure 3.14: Average Megawatts, High/Low Economic Growth Scenarios.....	3-19
Figure 3.15: UPC Growth Forecast Comparison to EIA.....	3-20
Figure 3.16: Load Growth Comparison to EIA	3-20
Figure 3.17: Peak Load Forecast 2015-2035.....	3-24
Figure 3.18: Peak Load Forecast with 1 in 20 High/Low Bounds, 2015-2035	3-25
Figure 4.1: 2016 Avista Capability & Energy Fuel Mix	4-1
Figure 4.2: Avista’s Net Metering Customers.....	4-11
Figure 5.1: Historical and Forecast Conservation Acquisition (system).....	5-2
Figure 5.2: Analysis Approach Overview	5-3
Figure 5.3: Cumulative Conservation Potentials CPA versus PRiSM.....	5-7
Figure 5.4: Existing & Future Energy Efficiency Costs and Energy Savings	5-9
Figure 6.1: 2020 Market Reliance & Capacity Cost Tradeoffs	6-4
Figure 6.2: Planning Margin Survey Results	6-5
Figure 6.3: Single Largest Contingency Survey Results	6-6
Figure 6.4: 95th Percentile Capacity Requirements.....	6-7
Figure 6.5: 99th Percentile Capacity Requirements.....	6-8
Figure 6.6: Winter 1 Hour Capacity Load and Resources.....	6-10
Figure 6.7: Summer 18-Hour Capacity Load and Resources	6-11
Figure 6.8: Annual Average Energy Load and Resources	6-12
Figure 7.1: Clean Power Plan 2030 Emission Intensity Goals	7-7
Figure 8.1: Avista Transmission Map	8-6
Figure 8.2: Spokane’s 9th and Central Feeder (9CE12F4) Outage History.....	8-10
Figure 9.1: Northwest Wind Project Levelized Costs per MWh	9-7
Figure 9.2: Solar Nominal Levelized Cost (\$/MWh)	9-9
Figure 9.3: Historical and Planned Hydro Upgrades	9-14
Figure 9.4: Storage’s Value Stream	9-18
Figure 9.5: Avista’s Monthly Up/Down Regulation Surplus	9-19
Figure 10.1: NERC Interconnection Map	10-2
Figure 10.2: 20-Year Annual Average Western Interconnect Energy	10-3
Figure 10.3: Resource Retirements (Nameplate Capacity)	10-4
Figure 10.4: Cumulative Generation Resource Additions (Nameplate Capacity)	10-5
Figure 10.5: Henry Hub Natural Gas Price Forecast.....	10-7
Figure 10.6: Northwest Expected Energy.....	10-9
Figure 10.7: Regional Wind Expected Capacity Factors.....	10-10

Figure 10.8: 2030 Adjusted State Carbon Intensity CPP Goals	10-11
Figure 10.9: Historical Stanfield Natural Gas Prices (2004-2015)	10-12
Figure 10.10: Stanfield Annual Average Natural Gas Price Distribution	10-13
Figure 10.11: Stanfield Natural Gas Distributions	10-14
Figure 10.12: Wind Model Output for the Northwest Region	10-18
Figure 10.13: 2014 Actual Wind Output BPA Balancing Authority	10-18
Figure 10.14: Mid-Columbia Electric Price Forecast Range	10-21
Figure 10.15: Western States Greenhouse Gas Emissions	10-23
Figure 10.16: EPA's CPP Annual Emissions Intensity for the West	10-23
Figure 10.17: EPA's CPP 2030 State Goal vs. Modeling Result	10-24
Figure 10.18: Base Case Western Interconnect Resource Mix	10-25
Figure 10.19: Annual Mid-Columbia Flat Price Forecast Benchmark Scenario	10-26
Figure 10.20: Benchmark Scenario Annual Western U.S. Greenhouse Gas Emissions	10-26
Figure 10.21: Annual Mid-Columbia Flat Price Forecast Colstrip Retires Scenario	10-27
Figure 10.22: No Colstrip Scenario Annual Western U.S. Greenhouse Gas Emissions	10-28
Figure 10.23: Social Cost of Carbon Scenario Emission Prices	10-29
Figure 10.24: Annual Mid-Columbia Flat Price Forecast Social Cost of Carbon Scenario	10-29
Figure 10.25: Social Cost of Carbon Scenario Western US Greenhouse Gas Emissions	10-30
Figure 10.26: CPP as Proposed Scenario Flat Mid-Columbia Electric Prices	10-31
Figure 10.27: CPP as Proposed Scenario Western Greenhouse Gas Emissions	10-32
Figure 10.28: CPP as Proposed Scenario 1941 Water Year Annual Costs	10-33
Figure 10.29: CPP as Proposed 1941 Water Year Scenario Mid-Columbia Electric Prices	10-34
Figure 11.1: Resource Acquisition History	11-2
Figure 11.2: Physical Resource Positions (Includes Energy Efficiency)	11-3
Figure 11.3: REC Requirements vs. Qualifying RECs for Washington State EIA	11-4
Figure 11.4: Conceptual Efficient Frontier Curve	11-7
Figure 11.5: New Resources Meets Winter Peak Loads	11-9
Figure 11.6: Energy Efficiency Annual Expected Acquisition Comparison	11-10
Figure 11.7: Load Forecast with and without Energy Efficiency	11-11
Figure 11.8: Avista Owned and Controlled Resource's Greenhouse Gas Emissions	11-13
Figure 11.9: Power Supply Expense Range	11-15
Figure 11.10: Expected Case Efficient Frontier	11-18
Figure 11.11: Risk Adjusted PVRR of Efficient Frontier Portfolios	11-19
Figure 11.12: Risk Adjusted PVRR of Efficient Frontier Portfolios	11-20
Figure 12.1: Linear versus Integer Efficient Frontier Difference	12-2
Figure 12.2: Colstrip Retires Scenario Efficient Frontier Analysis	12-6
Figure 12.3: Colstrip Retires in 2027 Scenario Power Supply Cost Impact	12-6
Figure 12.4: Colstrip Retires in 2027 Emissions	12-7
Figure 12.5: High-Cost Colstrip Retention Scenario Efficient Frontier	12-8
Figure 12.6: High-Cost Colstrip Scenarios Annual Cost	12-9
Figure 12.7: Social Cost of Carbon Impact to Efficient Frontier	12-9
Figure 12.8: Colstrip Retires in 2027 Scenario with Social Cost of Carbon Market Scenario	12-10
Figure 12.9: Colstrip Retires in 2027 Scenario with Social Cost of Carbon Market Scenario	12-11
Figure 12.10: Other Resource Strategy Portfolio Cost and Risk	12-13
Figure 12.11: Risk Adjusted PVRR (2016- 2035)	12-13
Figure 12.11: Utility Scale Solar Tipping Point Analysis (2014 \$)	12-14
Figure 12.13: Utility Scale Storage Tipping Point Analysis (2014 \$)	12-15

Table of Tables

Table 1.1: The 2015 Preferred Resource Strategy	1-6
Table 2.1: TAC Meeting Dates and Agenda Items	2-2
Table 2.2: External Technical Advisory Committee Participating Organizations	2-3
Table 2.3 Idaho IRP Requirements	2-6
Table 2.4 Washington IRP Rules and Requirements	2-6
Table 3.1: UPC Models Using Non-Weather Driver Variables	3-9
Table 3.2: Customer Growth Correlations, January 2005-December 2013	3-11
Table 3.4: High/Low Economic Growth Scenarios (2015-35)	3-18
Table 3.5: Load Growth for High/Low Economic Growth Scenarios (2015-35)	3-19
Table 3.6: Forecasted Winter and Summer Peak Growth, 2015-2035	3-24
Table 3.7: Energy and Peak Forecasts	3-25
Table 4.1: Avista-Owned Hydroelectric Resources	4-4
Table 4.2: Avista-Owned Thermal Resources	4-6
Table 4.3: Mid-Columbia Capacity and Energy Contracts	4-8
Table 4.4: PURPA Agreements	4-9
Table 4.5: Other Contractual Rights and Obligations	4-10
Table 5.1: Cumulative Potential Savings (Across All Sectors for Selected Years)	5-5
Table 5.2: Annual Achievable Potential Energy Efficiency (Megawatt Hours)	5-8
Table 5.3: Commercial and Industrial Demand Response Achievable Potential (MW)	5-14
Table 6.1: Washington State EIA Compliance Position Prior to REC Banking	6-13
Table 8.1: 2015 IRP Requested Transmission Upgrade Studies	8-8
Table 8.2: Third-Party Large Generation Interconnection Requests	8-8
Table 8.3: Completed and Planned Feeder Rebuilds	8-10
Table 9.1: Natural Gas-Fired Plant Levelized Costs per MWh	9-5
Table 9.2: Natural Gas-Fired Plant Cost and Operational Characteristics	9-5
Table 9.3: Solar Capacity Credit by Month	9-8
Table 9.5: Storage Power Supply Value	9-18
Table 9.6: Natural Gas Fired Facilities Ancillary Service Value	9-19
Table 10.1: AURORA ^{XMP} Zones	10-2
Table 10.2: Added Northwest Generation Resources	10-6
Table 10.3: Natural Gas Price Basin Differentials from Henry Hub	10-8
Table 10.4: Monthly Price Differentials for Stanfield from Henry Hub	10-8
Table 10.5: January through June Load Area Correlations	10-15
Table 10.6: July through December Load Area Correlations	10-15
Table 10.7: Area Load Coefficient of Determination (Standard Deviation/Mean)	10-16
Table 10.8: Area Load Coefficient of Determination (Standard Deviation/Mean)	10-16
Table 10.9: Annual Average Mid-Columbia Electric Prices (\$/MWh)	10-22
Table 11.1: Qualifying Washington EIA Resources	11-4
Table 11.2: 2015 Preferred Resource Strategy	11-8
Table 11.3: 2013 Preferred Resource Strategy	11-9
Table 11.4: PRS Rate Base Additions from Capital Expenditures	11-14
Table 11.5: Avista Medium-Term Winter Peak Hour Capacity Tabulation	11-16
Table 11.6: Avista Medium-Term Summer 18-Hour Sustained Peak Capacity Tabulation	11-16
Table 11.7: Alternative Resource Strategies along the Efficient Frontier (MW)	11-21
Table 11.8: Updated Annual Avoided Costs (\$/MWh)	11-23
Table 12.1: Efficient Frontier with Linear Programming	12-2
Table 12.2: Load Forecast Scenarios (2016-2035)	12-3
Table 12.3: Resource Selection for Load Forecast Scenarios	12-4
Table 12.4: Colstrip Retires in 2027 Scenario Resource Strategy	12-5
Table 12.5: Colstrip Retires in 2022 Scenario Resource Strategy	12-8

1. Executive Summary

Avista Corporation's 2015 Electric Integrated Resource Plan (IRP) guides resource strategy over the next two years and directs resource procurements over the 20-year timeframe. It provides a snapshot of existing resources and loads and evaluates acquisition strategies over a range of expected and possible future conditions. The 2015 Preferred Resource Strategy (PRS) includes energy efficiency, upgrades to existing generation facilities, and new natural gas-fired generation.

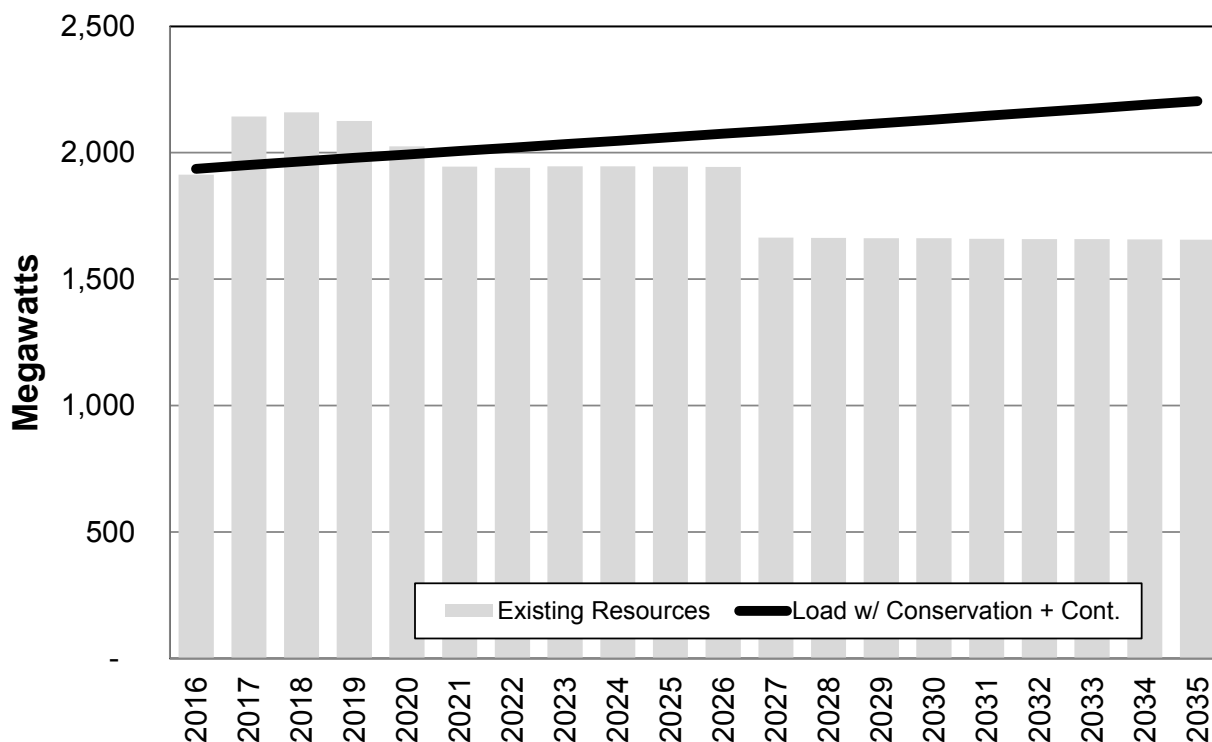
PRS development depends on a variety of modeling techniques to balance cost, reliability, rate volatility, and renewable resource requirements. Avista's management and the Technical Advisory Committee (TAC) guide its development and the IRP document by providing significant input on modeling and planning assumptions. TAC members include customers, commission staff, the Northwest Power and Conservation Council, consumer advocates, academics, environmental groups, utility peers, government agencies, and interested internal parties.

Resource Needs

Avista's peak planning methodology includes operating reserves, regulation, load following, wind integration and a 14 percent planning margin over winter-peak load levels. The company has adequate resources, combined with conservation and market purchases, to meet peak load requirements through 2020. Figure 1.1 shows Avista's resource deficit during the winter since the company experiences its highest loads in the winter. A short-term capacity need exists in the winter of 2015/16, but is short-lived because a 150 MW capacity sale contract ends in December 2016. Avista expects to address these short-term winter deficits with market purchases; therefore, the first long-term capacity deficit begins in 2021.

Since the region has a significant summer capacity surplus, Avista plans to meet all summer capacity needs with term purchases. Past 2020, resources acquired to meet winter deficiencies will provide capacity in excess of summer needs. Chapter Six provides a detailed discussion of Avista's resource needs.

Figure 1.1: Load-Resource Balance—Winter Peak Load & Resource Availability



Modeling and Results

Avista uses a multiple-step approach to develop its PRS. It begins by identifying and quantifying potential new generation resources to serve projected electricity demand across the West. A Western Interconnect-wide study determines the impact of extra-regional markets on the Northwest electricity marketplace. Avista then maps its existing resources to the transmission grid in a model simulating hourly operations for the Western Interconnect from 2016 to 2035, the IRP study timeframe. The model adds cost-effective new resources and transmission to the Western Interconnect as regional loads grow, or older resources are retired. Monte Carlo-style analyses vary hydroelectric and wind generation, loads, forced outages and natural gas price data over 500 iterations of potential future market conditions. The Expected Case is comprised of 500 the iterations of Mid-Columbia electricity prices.

Electricity and Natural Gas Market Forecasts

Figure 1.2 shows the 2015 IRP electricity price forecast for the Expected Case, including the range of prices resulting from 500 Monte Carlo iterations. The levelized Mid-Columbia market price is \$38.48 per MWh in nominal dollars over 20 years.

Electricity and natural gas prices are highly correlated because natural gas fuels marginal generation in the Northwest during most of the year. Figure 1.3 presents nominal Expected Case natural gas prices at the Stanfield trading hub, located in northeastern Oregon, as well as the forecast range from the 500 Monte Carlo iterations performed for the Expected Case. The average is \$4.97 per dekatherm over the next 20 years. See Chapter 10 for details on the natural gas and electricity price forecasts.

Figure 1.2: Average Mid-Columbia Electricity Price Forecast

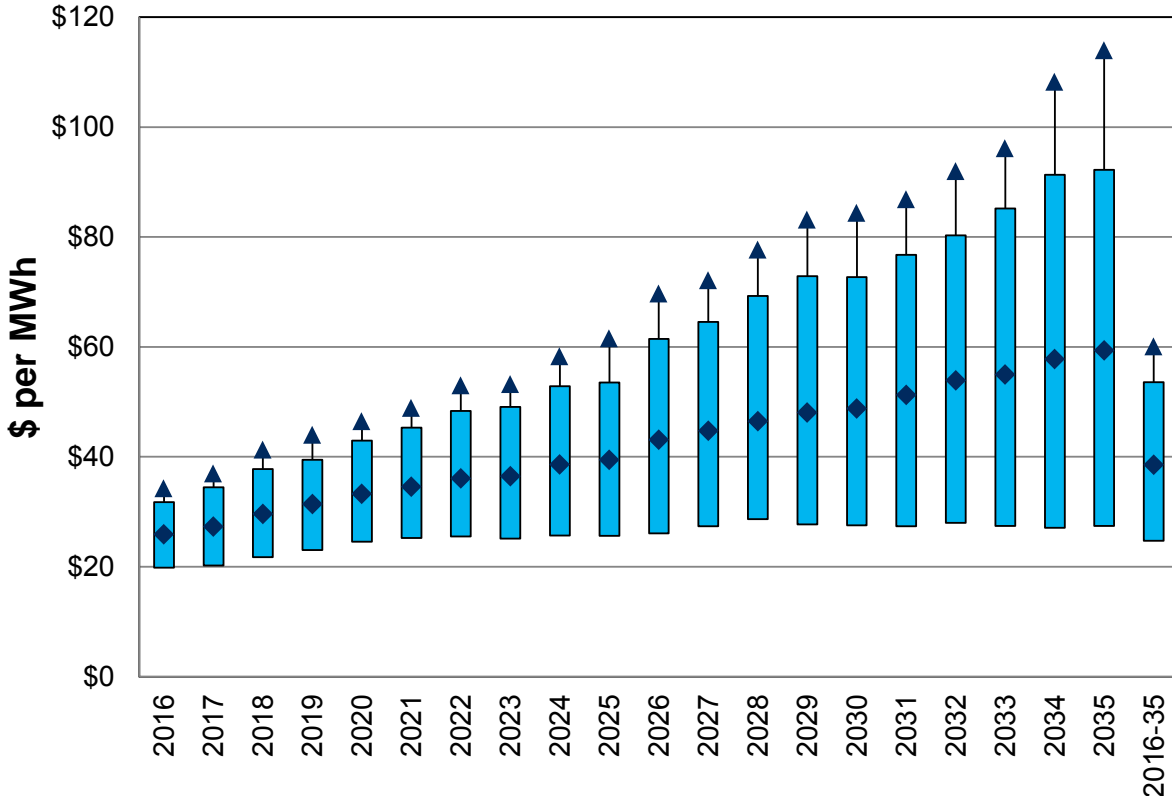
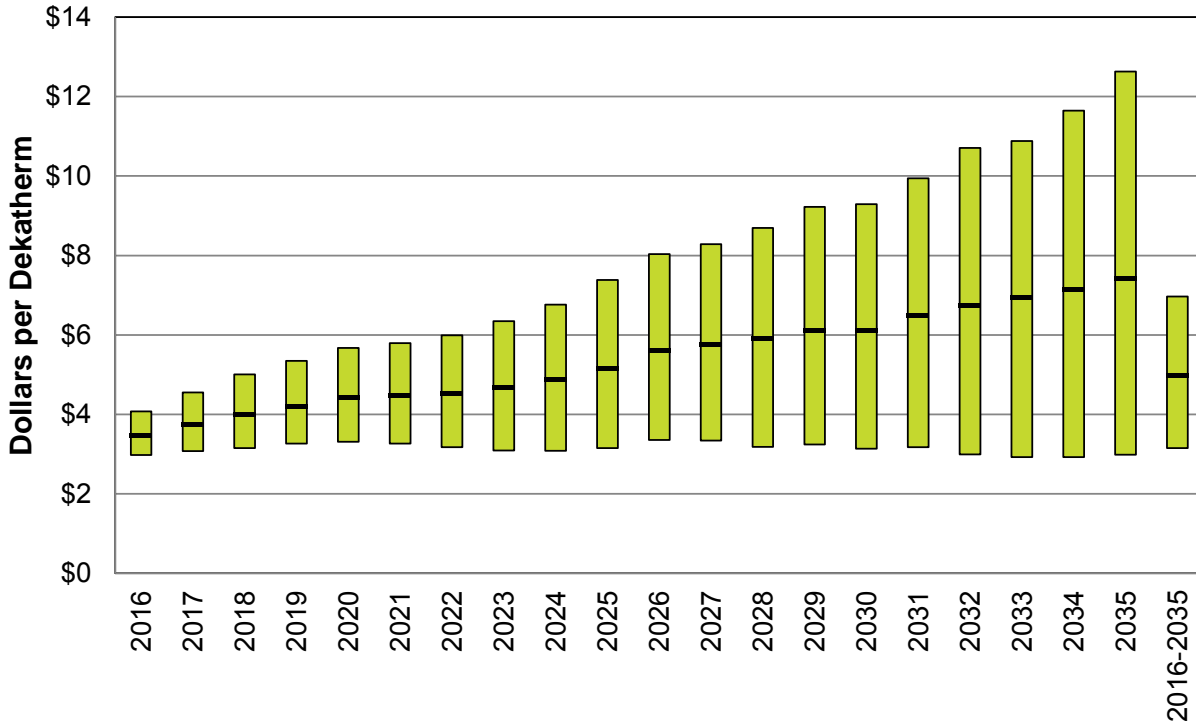


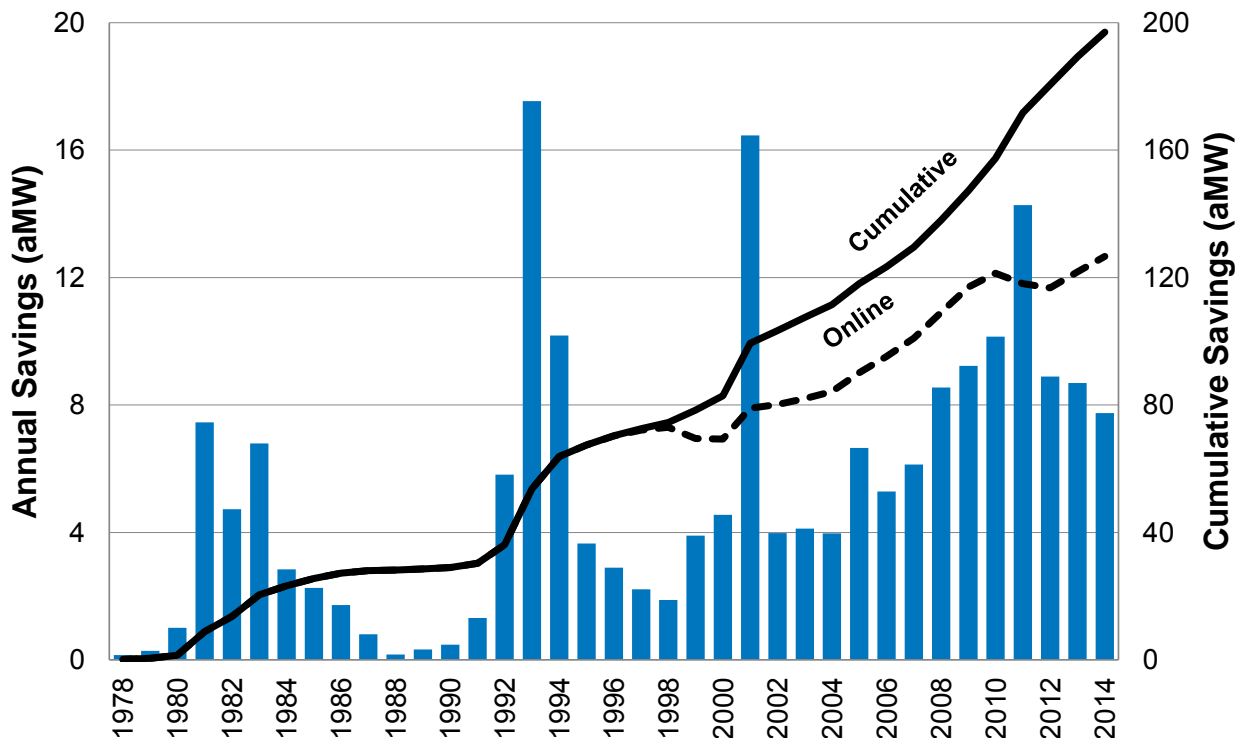
Figure 1.3: Stanfield Natural Gas Price Forecast



Energy Efficiency Acquisition

Avista commissioned a 20-year Conservation Potential Assessment in 2015. The study analyzed over 3,000 equipment and 2,300 measure options for residential, commercial, and industrial energy efficiency applications. Data from this study formed the basis of the IRP conservation potential evaluations. Figure 1.4 shows how historical efforts in energy efficiency have decreased Avista’s energy requirements by an additional 132 aMW, or approximately eleven percent of total load.

Figure 1.4: Cumulative Energy Efficiency Acquisitions



Preferred Resource Strategy

The PRS is a result of careful consideration by Avista’s management and the TAC of the information gathered and analyzed in the IRP process. It meets future load growth with upgrades at existing generation facilities, energy efficiency, and natural gas-fired technologies as shown in Table 1.1.

The 2015 PRS describes a reasonable low-cost plan along the efficient frontier of potential resource portfolios accounting for fuel supply and price risks. Major changes from the 2013 PRS include a reduced contribution from natural gas-fired peakers and the elimination of demand response because of lower projected load growth, more thermal plant upgrades and higher estimated costs of demand response.

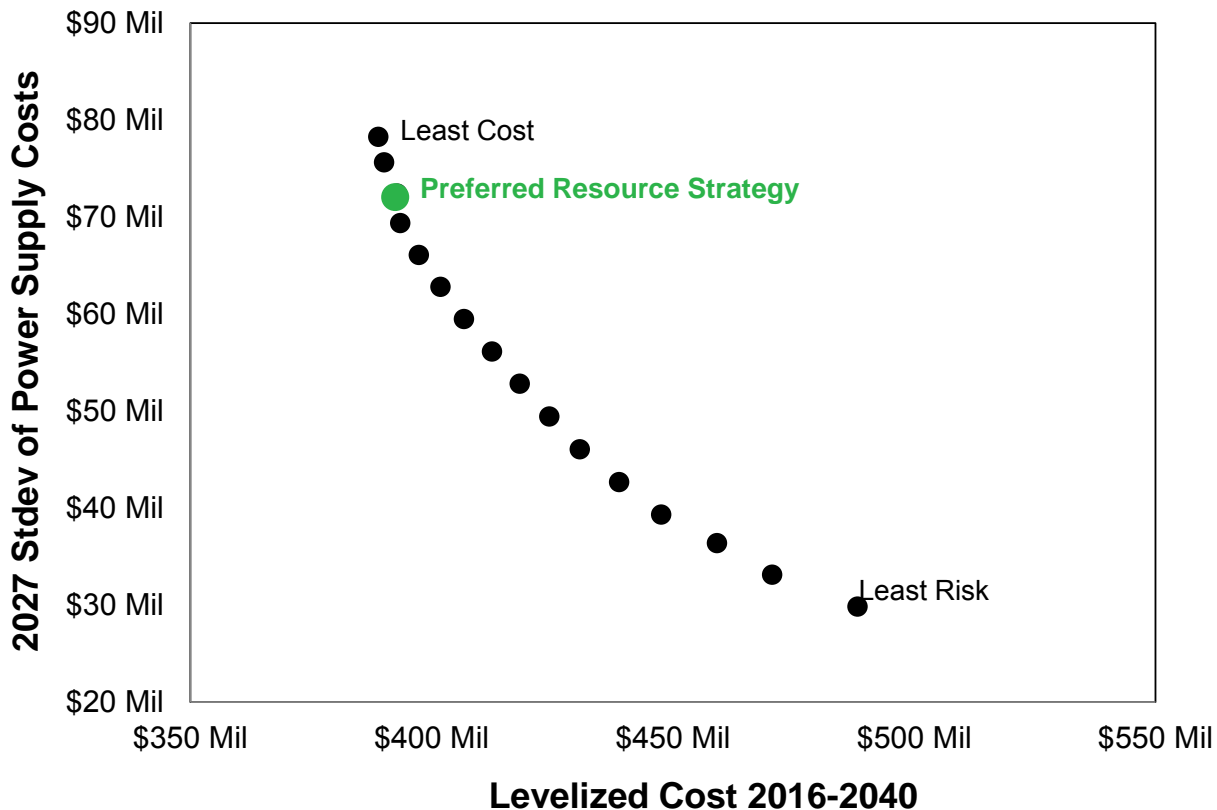
Table 1.1: The 2015 Preferred Resource Strategy

Resource	By the End of Year	ISO Conditions (MW)	Winter Peak (MW)	Energy (aMW)
Natural Gas Peaker	2020	96	102	89
Thermal Upgrades	2021-2025	38	38	35
Combined Cycle CT	2026	286	306	265
Natural Gas Peaker	2027	96	102	89
Thermal Upgrades	2033	3	3	3
Natural Gas Peaker	2034	47	47	43
Total		565	597	524
Efficiency Improvements	Acquisition Range		Winter Peak Reduction (MW)	Energy (aMW)
Energy Efficiency	2016-2035		193	132
Distribution Efficiencies			<1	<1
Total			193	132

Each new resource and energy efficiency option is valued against the Expected Case Mid-Columbia electricity market to identify its future value, as well as its inherent risk measured by year-to-year portfolio cost volatility. These values, and their associated capital and fixed operation and maintenance (O&M) costs, form the input into Avista's Preferred Resource Strategy Linear Programming Model (PRiSM). PRiSM assists Avista by developing optimal mixes of new resources along an efficient frontier. Chapter 11 provides a detailed discussion of the efficient frontier concept.

The PRS provides a least reasonable-cost portfolio minimizing future costs and risks within actual and expected environmental constraints. An efficient frontier helps determine the tradeoffs between risk and cost. The approach is similar to finding an optimal mix of risk and return in an investment portfolio. As expected returns increase, so do risks. Conversely, reducing risk generally reduces overall returns. Figure 1.5 presents the change in cost and risk from the PRS on the efficient frontier. Lower power cost variability comes from investments in more expensive, but less risky, resources such as wind and hydroelectric upgrades. The PRS is the portfolio selected on the efficient frontier where reduced risk justifies the increased cost.

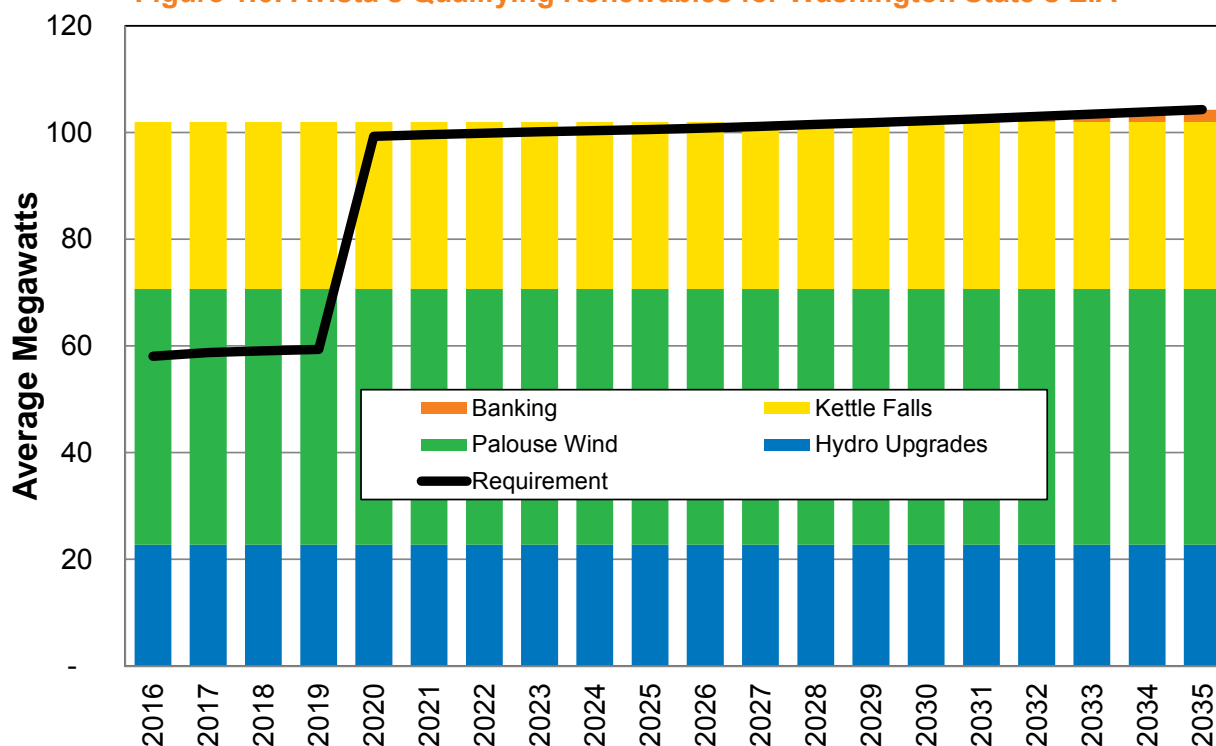
Figure 1.5: Efficient Frontier



Chapter 12 – Portfolio Scenarios, includes several scenarios identifying tipping points where the PRS could change under different conditions from the Expected Case. It also evaluates the impacts of, among others, varying load growth, resource capital costs, and greenhouse gas policies.

Washington voters approved the Energy Independence Act (EIA) through Initiative 937 in the November 2006 general election. The EIA requires utilities with over 25,000 customers to meet three percent of retail load from qualified renewable resources by 2012, nine percent by 2016, and 15 percent by 2020. The initiative also requires utilities to acquire all cost-effective conservation and energy efficiency measures. Avista will meet or exceed its EIA requirements through the IRP timeframe with a combination of qualifying hydroelectric upgrades, the Palouse Wind project, Kettle Falls Generating Station output and renewable energy certificate (REC) purchases. Figure 1.6 shows Avista’s EIA-qualified generation; Chapter 6 includes a more in-depth discussion of this topic.

Figure 1.6: Avista's Qualifying Renewables for Washington State's EIA



Greenhouse Gas Emissions

The regulation of greenhouse gas, or carbon emissions, is in various stages of development and implementation throughout the country. Some states, like California or participants in the Regional Greenhouse Gas Initiative, have active cap and trade programs, emissions performance standards, renewable portfolio standards, or a combination of active and proposed regulations affecting emissions from electric generation resources. The June 2014 Clean Power Plan (CPP) proposal aims to reduce greenhouse gas emissions from existing fossil fueled electric generating units by establishing state-by-state emission rate targets calculated on the basis of four building blocks. The IRP reduces emissions consistent with the EPA proposal. All active regulations affecting generation in the Western Interconnect are included in the IRP, and it includes a \$12 per metric ton of carbon cost that escalates over time. Figure 1.7 shows Avista's projected greenhouse gas emissions for its existing and new generation assets.

Figure 1.7 shows that Avista emissions will increase modestly. Figure 1.8 shows that, unlike Avista, western-region emissions likely will fall from historic levels. This discrepancy occurs because Avista does not own any of the less-cost-effective coal and older natural gas-fired plants projected to retire over the IRP timeframe. More details on state and federal greenhouse gas policies are in Chapter 7. Results of greenhouse gas policy scenarios are in Chapter 12.

Figure 1.7: Avista Owned and Controlled Resource's Greenhouse Gas Emissions

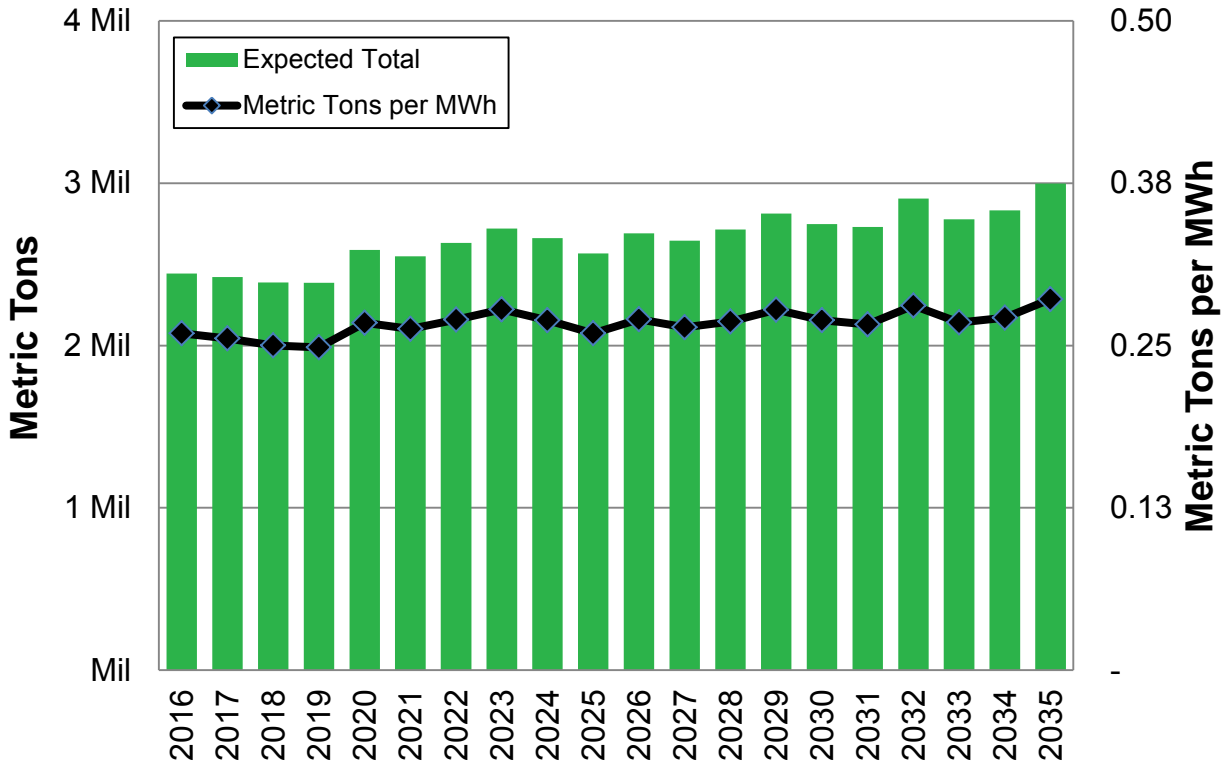
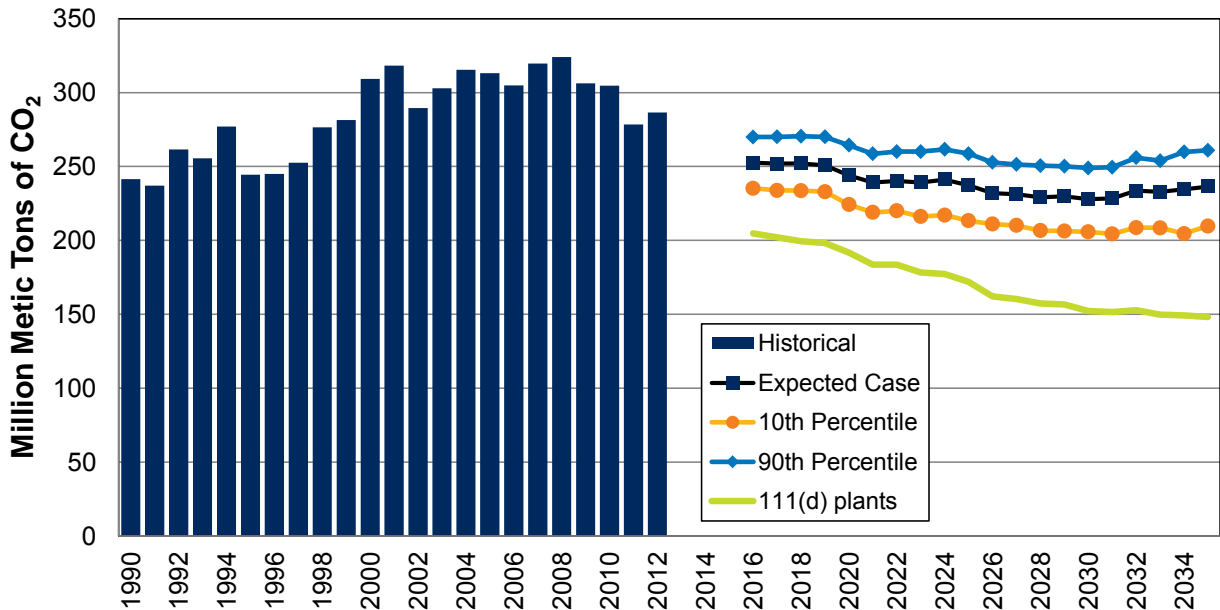


Figure 1.8: U.S. Western Interconnect Greenhouse Gas Emissions



Action Items

The 2015 Action Plan chapter updates progress made on Action Items in the 2013 IRP, and outlines activities Avista intends to perform between the publication of this report and publication of the 2017 IRP in the summer of 2017. It includes input from Commission Staff, Avista's management team, and the TAC. Action Item categories include generation resource-related analysis, energy efficiency and transmission planning. Refer to Chapter 13 for detailed discussions of Action Items in each of these categories.

2. Introduction and Stakeholder Involvement

Avista submits an IRP to the Idaho and Washington public utility commissions biennially.¹ Including its first plan in 1989, the 2015 IRP is Avista's fourteenth plan. The IRP identifies and describes a PRS for meeting load growth while balancing cost and risk measures with environmental mandates.

Avista is statutorily obligated to provide reliable electricity service to its customers at rates, terms, and conditions that are fair, just, reasonable, and sufficient. Avista assesses different resource acquisition strategies and business plans to acquire a mix of resources meeting resource adequacy requirements and optimizing the value of its current portfolio. The IRP is a resource evaluation tool, not a plan for acquiring a particular set of assets. Actual resource acquisition generally occurs through a competitive bidding process.

IRP Process

The 2015 IRP is developed and written with the aid of a public process. Avista actively seeks input from a variety of constituents through the TAC. The TAC is a mix of more than 75 invited participants, including staff from the Idaho and Washington commissions, customers, academics, environmental organizations, government agencies, consultants, utilities and other interested parties, who joined the planning process.

Avista sponsored six TAC meetings for the 2015 IRP. The first meeting was on May 29, 2014; the last occurred on June 24, 2015. Each TAC meeting covers different aspects of IRP planning activities. At each TAC meeting, members provide contributions to, and assessments of, modeling assumptions, modeling processes, and results of Avista studies. Table 2.1 contains a list of TAC meeting dates and the agenda items covered in each meeting.

Agendas and presentations from the TAC meetings are in Appendix A and on Avista's website at <http://www.avistautilities.com/inside/resources/irp/electric>. The website link contains all past IRPs and TAC meeting presentations back to 1989.

¹ Washington IRP requirements are contained in WAC 480-100-238 Integrated Resource Planning. Idaho IRP requirements are in Case No. U-1500-165 Order No. 22299, Case No. GNR-E-93-1, Order No. 24729, and Case No. GNR-E-93-3, Order No. 25260.

Table 2.1: TAC Meeting Dates and Agenda Items

Meeting Date	Agenda Items
TAC 1 – May 29, 2014	<ul style="list-style-type: none"> • TAC Meeting Expectations • 2013 IRP Commission Acknowledgements • 2013 Action Plan Update • Energy Independence Act Compliance • Pullman Energy Storage Project • Demand Response Study Discussion • Draft 2015 Electric IRP Work Plan
TAC 2 – September 23, 2014	<ul style="list-style-type: none"> • Introduction & TAC 1 Recap • Conservation Selection Methodology • Load and Economic Forecast • Shared Value Report • Generation Options • Clean Power Plan Proposal Discussion
TAC 3 – November 21, 2014	<ul style="list-style-type: none"> • Introduction & TAC 2 Recap • Planning Margin • Colstrip Discussion • Cost of Carbon • IRP Modeling Overview • Conservation Potential Assessment
TAC 4 – February 24, 2015	<ul style="list-style-type: none"> • Introduction & TAC 3 Recap • Demand Response Study • Natural Gas Price Forecast • Electric Price Forecast • Resource Requirements • Interconnection Studies • Market Scenarios and Portfolio Analysis
TAC 5 – May 19, 2015	<ul style="list-style-type: none"> • Introduction & TAC 4 Recap • Review of Market Futures • Ancillary Services Valuation • Conservation Potential Assessment • Draft 2015 PRS & Portfolio Analysis
TAC 6 – June 24, 2015	<ul style="list-style-type: none"> • Introduction & TAC 5 Recap • Avista Community Solar • 2015 Action Plan • Final 2015 PRS • 2015 IRP Document Introduction

Avista greatly appreciates the valuable contributions of its TAC members and wishes to acknowledge and thank the organizations that allow their attendance. Table 2.2 is a list of the organizations participating in the 2015 IRP TAC process.

Table 2.2: External Technical Advisory Committee Participating Organizations

Organization
AEG
As You Sow
Birch Energy Economics
City of Spokane
Clearwater Paper
Earth Justice
Eastern Washington University
Eugene Water & Electric Board
Gallatin Group
GE Energy
Grant PUD
Greater Spokane Incorporated
Idaho Public Utilities Commission
MEIC
Montana Energy Information Center
NW Energy Coalition
PacifiCorp
Pend Oreille PUD
Puget Sound Energy
Pullman City Council
Renewable Northwest
Residential and Small Commercial Customers
Sierra Club
SNAP
The Energy Authority
TransAlta
TransCanada
Washington Attorney General
Washington Department of Enterprise Services
Washington State Department of Commerce
Washington Utilities and Transportation Commission
Whitman County Commission

Issue Specific Public Involvement Activities

In addition to the TAC meetings, Avista sponsors and participates in several other collaborative processes involving a range of public interests. Many are detailed below.

Energy Efficiency Advisory Group

The energy efficiency Advisory Group provides stakeholders and public groups biannual opportunities to discuss Avista’s energy efficiency efforts.

FERC Hydro Relicensing – Clark Fork and Spokane River Projects

Over 50 stakeholder groups participated in the Clark Fork hydro-relicensing process beginning in 1993. This led to the first all-party settlement filed with a FERC relicensing application, and the eventual issuance of a 45-year FERC operating license in February 2003. This collaborative process continues in the implementation of the license and Clark Fork Settlement Agreement, with stakeholders participating in various protection, mitigation, and enhancement efforts. Avista received a 50-year license for the Spokane River Project following a multi-year collaborative process involving several hundred stakeholders. Implementation began in 2009 with a variety of collaborating parties.

Low Income Rate Assistance Program

This program is coordinated with four community action agencies in Avista's Washington service territory. The program began in 2001 and, is reviewed for administrative issues and needs on a quarterly basis.

Regional Planning

The Pacific Northwest's generation and transmission system operates in a coordinated fashion. Avista participates in the efforts of many organization's planning processes. Information from this participation supplements Avista's IRP process. A partial list of the regional organizations Avista participates in includes:

- Western Electricity Coordinating Council
- Northwest Power and Conservation Council
- Northwest Power Pool
- Pacific Northwest Utilities Conference Committee
- ColumbiaGrid
- Northern Tier Transmission Group
- North American Electric Reliability Corporation

Future Public Involvement

Avista actively solicits input from interested parties to enhance its IRP process. We continue to expand TAC membership and diversity, and maintain the TAC meetings as an open public process.

2015 IRP Outline

The 2015 IRP consists of nine chapters plus an executive summary and this introduction. A series of technical appendices supplement this report.

Chapter 1: Executive Summary

This chapter summarizes the overall results and highlights of the 2015 IRP.

Chapter 2: Introduction and Stakeholder Involvement

This chapter introduces the IRP and details public participation and involvement in the IRP planning process.

Chapter 3: Economic and Load Forecast

This chapter covers regional economic conditions, Avista's energy and peak load forecasts, and load forecast scenarios.

Chapter 4: Existing Supply Resources

This chapter provides an overview of Avista-owned generating resources and its contractual resources and obligations.

Chapter 5: Energy Efficiency and Demand Response

This chapter discusses Avista energy efficiency programs. It provides an overview of the conservation potential assessment and summarizes energy efficiency modeling results.

Chapter 6: Long-Term Position

This chapter reviews Avista reliability planning and reserve margins, resource requirements, and provides an assessment of its reserves and flexibility.

Chapter 7: Policy Considerations

This chapter focuses on some of the major policy issues for resource planning, including state and federal greenhouse gas policies and environmental regulations.

Chapter 8: Transmission & Distribution Planning

This chapter discusses Avista distribution and transmission systems, as well as regional transmission planning issues. It includes detail on transmission cost studies used in IRP modeling and provides a summary of our 10-year Transmission Plan. The chapter concludes with a discussion of distribution efficiency and grid modernization projects.

Chapter 9: Generation Resource Options

This chapter covers the costs and operating characteristics of the generation resource options modeled for the IRP.

Chapter 10: Market Analysis

This chapter details Avista IRP modeling, and its analyses of the wholesale market.

Chapter 11: Preferred Resource Strategy

This chapter details the resource selection process used to develop the 2015 PRS, including the efficient frontier and resulting avoided costs.

Chapter 12: Portfolio Scenarios

This chapter discusses the portfolio scenarios and tipping point analyses.

Chapter 13: Action Items

This chapter discusses progress made on Action Items contained in the 2013 IRP. It details the action items Avista will focus on between publication of this plan and the next one.

Regulatory Requirements

The IRP process for Idaho has several requirements documented in IPUC Orders Nos. 22299 and 24729. Table 2.3 summarizes them.

Table 2.3 Idaho IRP Requirements

Requirement	Plan Citation
Identify and list relevant operating characteristics of existing resources by categories including: hydroelectric, coal-fired, oil or gas-fired, PURPA (by type), exchanges, contracts, transmission resources, and others.	Chapter 4- Existing Supply Resources
Identify and discuss the 20-year load forecast plus scenarios for the different customer classes. Identify the assumptions and models used to develop the load forecast.	Chapter 3- Economic & Load Forecast Chapter 12- Portfolio Scenarios
Identify the utility's plan to meet load over the 20-year planning horizon. Include costs and risks of the plan under a range of plausible scenarios.	Chapter 11- Preferred Resource Strategy
Identify energy efficiency resources and costs.	Chapter 5- Energy Efficiency & Demand Response
Provide opportunities for public participation and involvement.	Chapter 2- Introduction and Stakeholder Involvement

The IRP process for Washington has several requirements documented in Washington Administrative Code (WAC). Table 2.4 summarizes where in the document Avista addressed each requirement.

Table 2.4 Washington IRP Rules and Requirements

Rule and Requirement	Plan Citation
WAC 480-100-238(4) – Work plan filed no later than 12 months before next IRP due date. Work plan outlines content of IRP. Work plan outlines method for assessing potential resources.	Work plan submitted to the UTC on August 31, 2014; see Appendix B for a copy of the Work Plan.
WAC 480-100-238(5) – Work plan outlines timing and extent of public participation.	Appendix B
WAC 480-100-238(2)(a) – Plan describes mix of energy supply resources.	Chapter 4- Existing Supply Resources Chapter 11- Preferred Resource Strategy
WAC 480-100-238(2)(a) – Plan describes conservation supply.	Chapter 5- Energy Efficiency & Demand Response
WAC 480-100-238(2)(a) – Plan addresses supply in terms of current and future needs of utility ratepayers.	Chapter 3- Economic & Load Forecast
WAC 480-100-238(2)(b) – Plan uses lowest reasonable cost (LRC) analysis to select mix of resources.	Chapter 11- Preferred Resource Strategy
WAC 480-100-238(2)(b) – LRC analysis	Chapter 11- Preferred Resource Strategy

considers resource costs.	
WAC 480-100-238(2)(b) – LRC analysis considers market-volatility risks.	Chapter 10- Market Analysis Chapter 11- Preferred Resource Strategy
WAC 480-100-238(2)(b) – LRC analysis considers demand side uncertainties.	Chapter 5- Energy Efficiency & Demand Response Chapter 11- Preferred Resource Strategy
WAC 480-100-238(2)(b) – LRC analysis considers resource dispatchability.	Chapter 9- Generation Resource Options Chapter 10- Market Analysis
WAC 480-100-238(2)(b) – LRC analysis considers resource effect on system operation.	Chapter 10- Market Analysis Chapter 11- Preferred Resource Strategy
WAC 480-100-238(2)(b) – LRC analysis considers risks imposed on ratepayers.	Chapter 7- Policy Considerations Chapter 9- Generation Resource Options Chapter 10- Market Analysis Chapter 11- Preferred Resource Strategy Chapter 12- Portfolio Scenarios
WAC 480-100-238(2)(b) – LRC analysis considers public policies regarding resource preference adopted by Washington state or federal government.	Chapter 3- Economic & Load Forecast Chapter 4- Existing Supply Resources Chapter 7- Policy Considerations Chapter 11- Preferred Resource Strategy
WAC 480-100-238(2)(b) – LRC analysis considers cost of risks associated with environmental effects including emissions of carbon dioxide.	Chapter 7- Policy Considerations Chapter 11- Preferred Resource Strategy Chapter 12- Portfolio Scenarios
WAC 480-100-238(2)(c) – Plan defines conservation as any reduction in electric power consumption that results from increases in the efficiency of energy use, production, or distribution.	Chapter 5- Energy Efficiency & Demand Response Chapter 11- Preferred Resource Strategy
WAC 480-100-238(3)(a) – Plan includes a range of forecasts of future demand.	Chapter 3- Economic & Load Forecast Chapter 12- Portfolio Scenarios
WAC 480-100-238(3)(a) – Plan develops forecasts using methods that examine the effect of economic forces on the consumption of electricity.	Chapter 3- Economic & Load Forecast Chapter 12- Portfolio Scenarios
WAC 480-100-238(3)(a) – Plan develops forecasts using methods that address changes in the number, type and efficiency of end-uses.	Chapter 3- Economic & Load Forecast Chapter 5- Energy Efficiency & Demand Response Chapter 8- Transmission & Distribution
WAC 480-100-238(3)(b) – Plan includes an assessment of commercially available conservation, including load management.	Chapter 5- Energy Efficiency & Demand Response Chapter 8- Transmission & Distribution
WAC 480-100-238(3)(b) – Plan includes an assessment of currently employed and new policies and programs needed to obtain the conservation improvements.	Chapter 5- Energy Efficiency & Demand Response Chapter 8- Transmission & Distribution
WAC 480-100-238(3)(c) – Plan includes an assessment of a wide range of conventional and commercially available nonconventional generating technologies.	Chapter 9- Generation Resource Options Chapter 11- Preferred Resource Strategy Chapter 12- Portfolio Scenarios
WAC 480-100-238(3)(d) – Plan includes an	Chapter 8- Transmission & Distribution

assessment of transmission system capability and reliability (as allowed by current law).	
WAC 480-100-238(3)(e) – Plan includes a comparative evaluation of energy supply resources (including transmission and distribution) and improvements in conservation using LRC.	Chapter 5- Energy Efficiency & Demand Response Chapter 8- Transmission & Distribution
WAC-480-100-238(3)(f) – Demand forecasts and resource evaluations are integrated into the long range plan for resource acquisition.	Chapter 5- Energy Efficiency & Demand Response Chapter 8- Transmission & Distribution Chapter 9- Generation Resource Options Chapter 12- Portfolio Scenarios
WAC 480-100-238(3)(g) – Plan includes a two-year action plan that implements the long range plan.	Chapter 13- Action Items
WAC 480-100-238(3)(h) – Plan includes a progress report on the implementation of the previously filed plan.	Chapter 13- Action Items
WAC 480-100-238(5) – Plan includes description of consultation with commission staff and public participation	Chapter 2- Introduction and Stakeholder Involvement
WAC 480-100-238(5) – Plan includes description of work plan. (Description not required)	Appendix B
WAC 480-107-015(3) – Proposed request for proposals for new capacity needed within three years of the IRP.	Chapter 10- Preferred Resource Strategy
RCW 19.280.030-1(e) – An assessment of methods, commercially available technologies, or facilities for integrating renewable resources, and addressing overgeneration events, if applicable to the utility's resource portfolio;	Chapter 9- Generation Resource Options Chapter 10- Market Analysis
RCW 19.280.030-1(f) – The integration of the demand forecasts and resource evaluations into a long-range assessment describing the mix of supply side generating resources and conservation and efficiency resources that will meet current and projected needs, including mitigating overgeneration events, at the lowest reasonable cost and risk to the utility and its ratepayers; and	Chapter 9- Generation Resource Options Chapter 10- Market Analysis

3. Economic Analysis & Load Forecast

Introduction & Highlights

An explanation and quantification of Avista's loads and resources are integral to the IRP. This chapter summarizes Expected Case customer and load projections, load growth scenarios, and recent enhancements to our forecasting models and processes. The forecasts described in this section are used in the analysis of Avista's future resource needs.

Chapter Highlights

- Population and employment growth is starting to recover from the 2009 Great Recession.
- The 2015 Expected Case energy forecast grows 0.6 percent per year, replacing the 1.0 percent annual growth rate in the 2013 IRP.
- The retail sales forecast and residential use per customer continue to decline from 2013 IRP projections
- Peak load growth is higher than energy growth, at 0.72 percent in the winter and 0.85 percent in the summer.
- Testing performed for this IRP shows that historical extreme weather events contain temperature extremes that are still valid for peak load modeling.

Economic Characteristics of Avista's Service Territory

Avista's core service area for electricity includes a population of more than a half million people residing in Eastern Washington and Northern Idaho. Three metropolitan statistical areas (MSAs) dominate Avista's service area: the Spokane-Spokane Valley, WA MSA (Spokane-Stevens counties); the Coeur d'Alene, ID MSA (Kootenai County); and the Lewiston-Clarkson ID-WA, MSA (Nez Perce-Asotin counties). These three MSAs account for just over 70 percent of both customers (i.e., meters) and load. The remaining 30 percent are in low-density rural areas in both states. Washington accounts for about two-thirds of customers and Idaho one-third.

Population

Population growth is increasingly a function of net migration within Avista's service area. Net migration is strongly associated with both service area and national employment growth through the business cycle. The regional business cycle follows the U.S. business cycle, meaning regional economic expansions or contractions follow national trends.¹ Econometric analysis explains that when regional employment growth is stronger than U.S. growth over the business cycle, its cause is increased in-migration. The reverse holds true. Figure 3.1 shows annual population growth since 1971. During all deep economic downturns since the mid-1970s, reduced population growth rates in

¹ *An Exploration of Similarities between National and Regional Economic Activity in the Inland Northwest*, Monograph No. 11, May 2006. <http://www.ewu.edu/cbpa/centers-and-institutes/ippea/monograph-series.xml>.

Avista’s service territory led to lower load growth.² The Great Recession reduced population growth from nearly two percent in 2007 to less than one percent from 2010 to 2013. Accelerating service area employment growth in 2013 helped push population growth above one percent in 2014.

Figure 3.1: MSA Population Growth and U.S. Recessions, 1971-2014

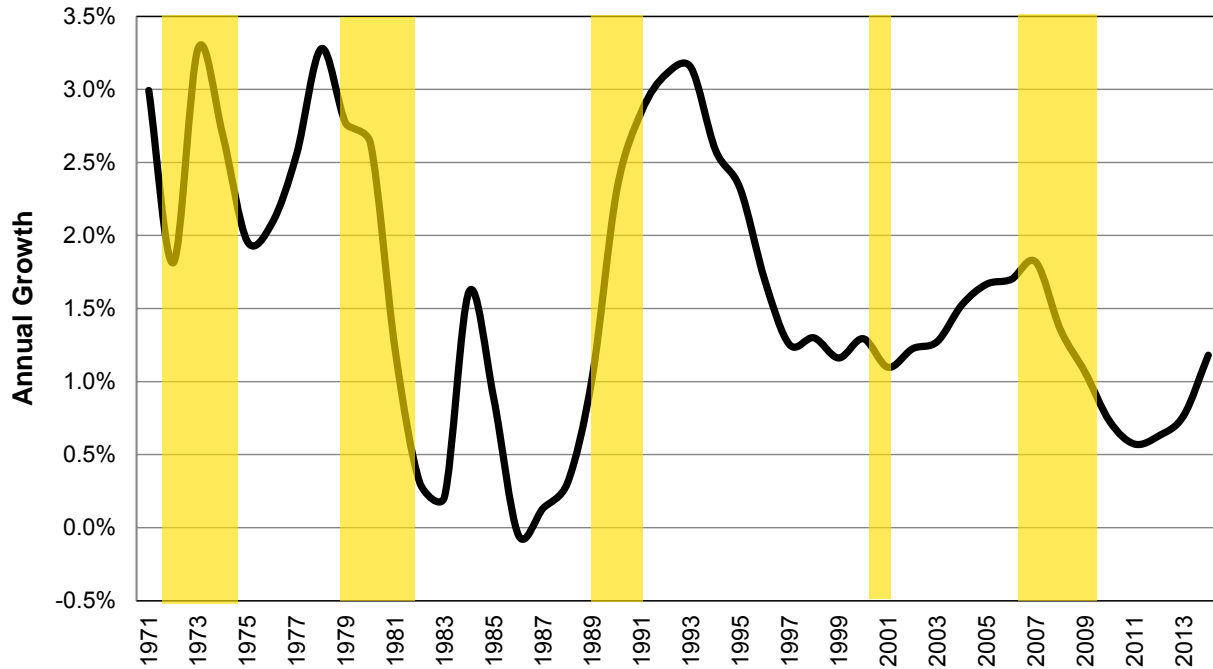
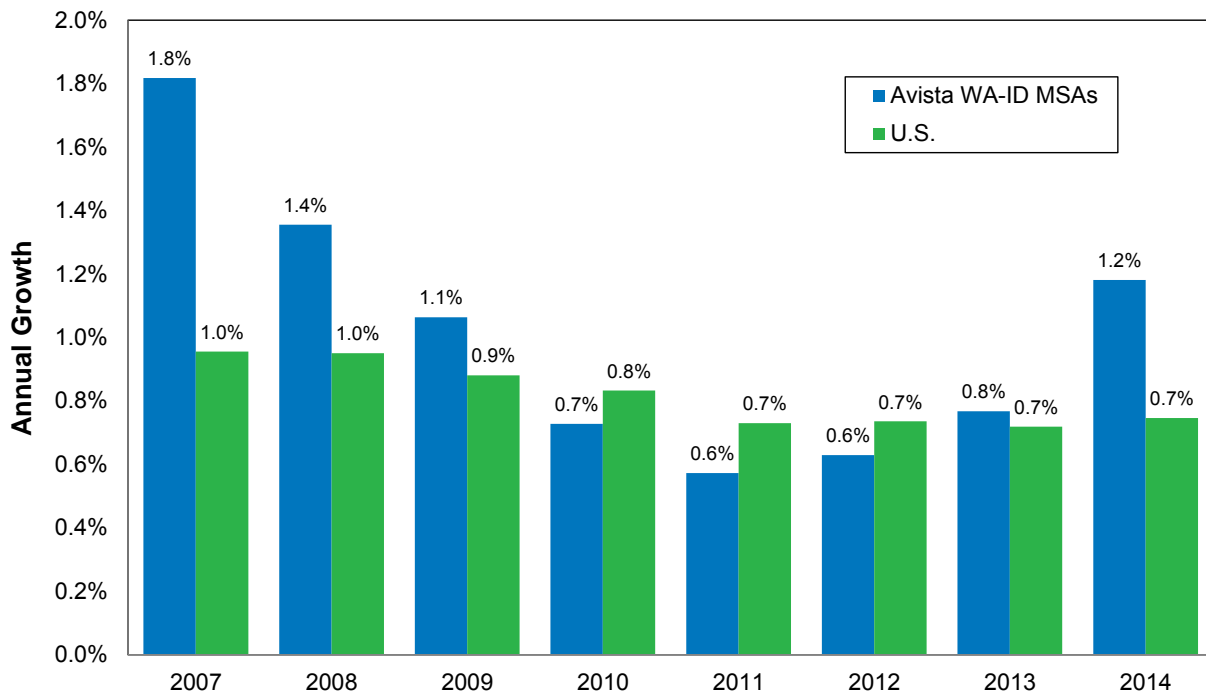


Figure 3.2 shows population growth since the start of the Great Recession in 2007.³ Service area population growth over the 2010-2012 period is weaker than the U.S.; it is closely associated with the strength of regional employment growth relative to the U.S. over the same period. The same can be said for the increase in population growth in 2014 relative to the U.S. The association of employment growth to population growth has a one year lag. That is, the relative strength of service area population growth in year “y” is positively associated with service area population growth in year “y+1”. Econometric estimates based on historical data show that, holding U.S. employment-growth constant, every one percent increase in service area employment growth is associated with a 0.4 percent increase in population growth in the next year.

² Data Source: Bureau of Economic Development, U.S. Census, and National Bureau of Economic Research

³ Data Source: Bureau of Economic Analysis and U.S. Census.

Figure 3.2: MSA Population Growth, 2007-2014



Employment

It is useful to examine the distribution of employment and employment performance since 2007 given the correlation between population and employment growth. The Inland Northwest has transitioned from a natural resources-based manufacturing economy to a services-based economy. Figure 3.3 shows the breakdown of non-farm employment for all three MSAs.⁴ Approximately 70 percent of employment in the three MSAs is in private services, followed by government (18 percent) and private goods-producing sectors (13 percent). Farming accounts for one percent of total employment.

Spokane and Coeur d'Alene MSAs are major providers of health and higher education services to the Inland Northwest. A recent addition to these sectors is approval from Washington's legislature for Washington State University to open a medical school in Spokane, WA.

Between 1990 and 2007 non-farm employment growth averaged 2.7 percent per year. However, Figure 3.4 shows that following the start of the Great Recession in 2007, service area employment lagged the U.S. recovery for the 2010-2012 period.⁵ Regional employment recovery did not materialize until 2013, when services employment started to grow. Prior to this, reductions in federal, state, and local government employment offset gains in goods producing sectors. By the fourth quarter 2014, service area employment growth began exceeding U.S. growth rates.

⁴ Data Source: Bureau of Labor and Statistics

⁵ Data Source: Bureau of Labor and Statistics.

Figure 3.3: MSA Non-Farm Employment Breakdown by Major Sector, 2014

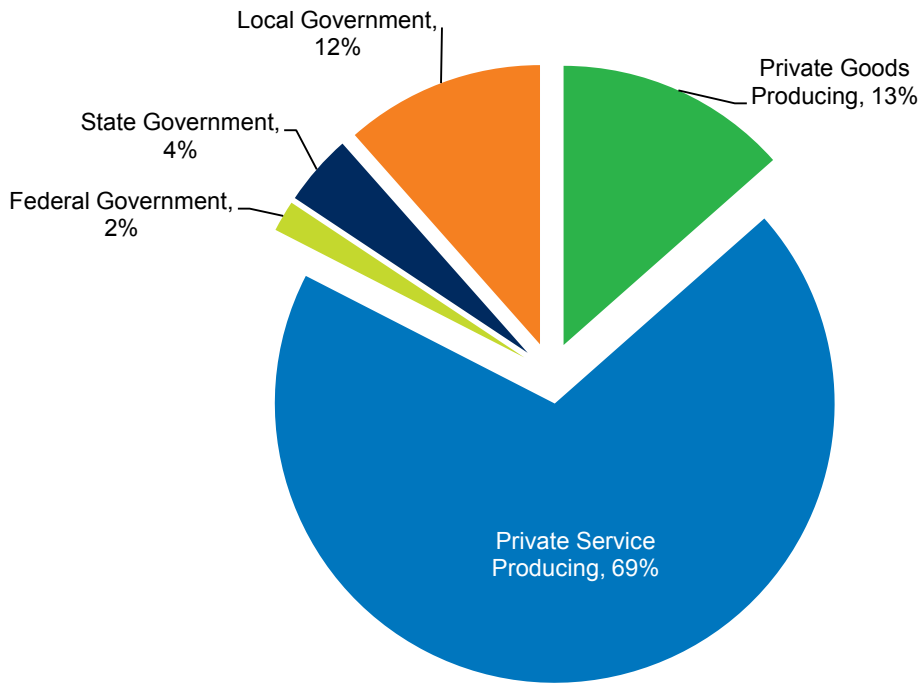


Figure 3.4: MSA Non-Farm Employment Growth, 2007-2014

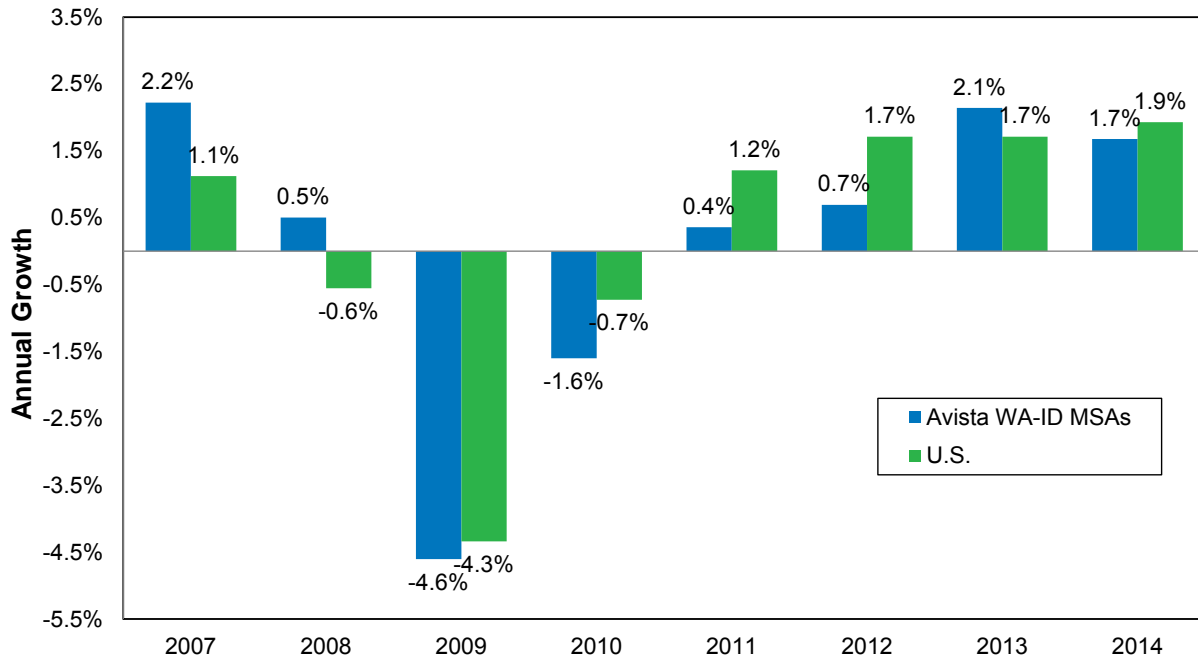
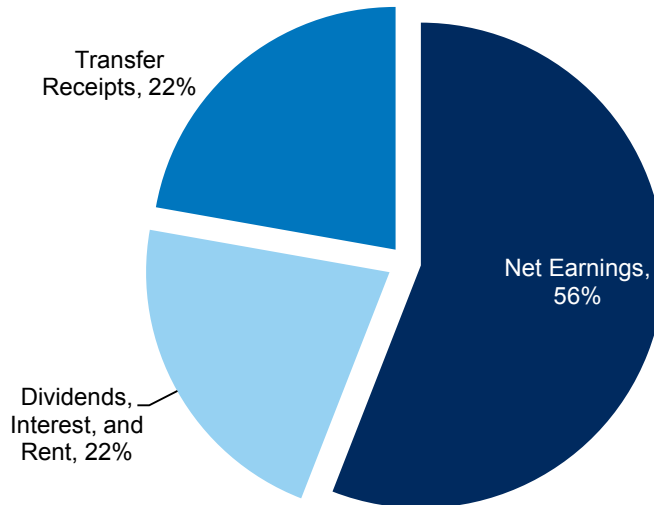


Figure 3.5 shows the distribution of personal income, a broad measure of both earned income and transfer payments, for Avista’s Washington and Idaho MSAs.⁶ Regular income includes net earnings from employment, and investment income in the form of

⁶ Data Source: Bureau of Economic Analysis.

dividends, interest and rent. Personal current transfer payments include money income and in-kind transfers received through unemployment benefits, low-income food assistance, Social Security, Medicare and Medicaid.

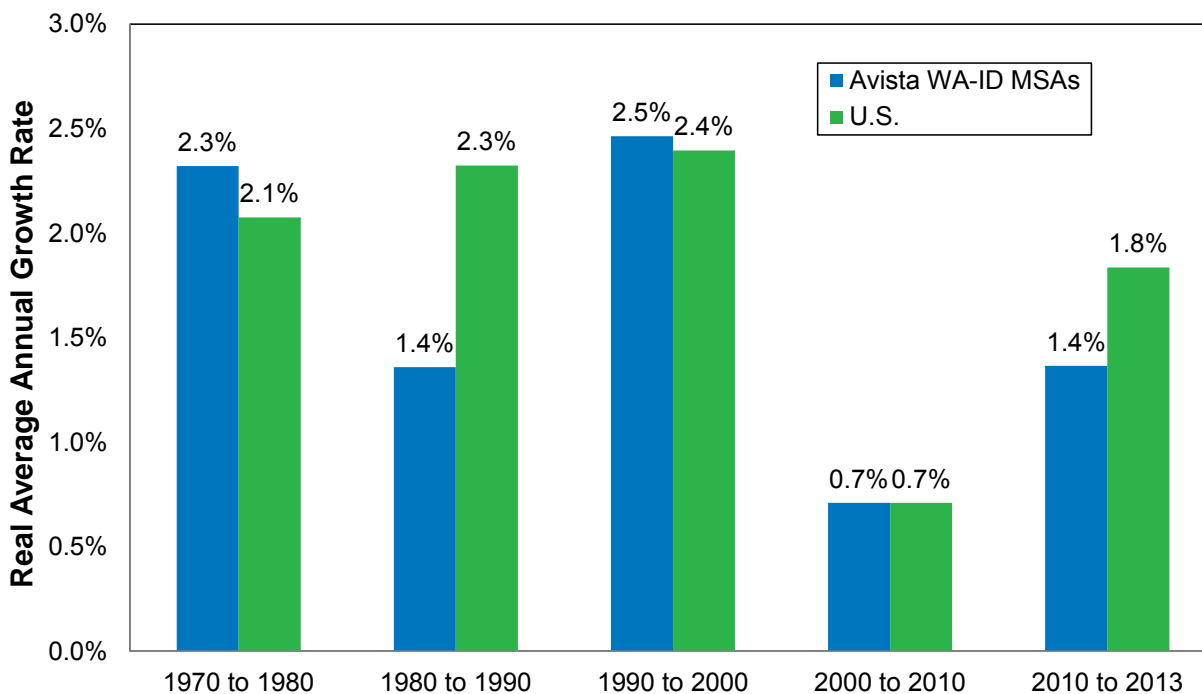
Figure 3.5: MSA Personal Income Breakdown by Major Source, 2013



In 1970, transfer payments in Avista's service area accounted for 12 percent of the local economy. The income share of transfer payments has nearly doubled over the last 40 years. The relatively high regional dependence on government employment and transfer payments means continued federal fiscal consolidation and transfer program reform may reduce future growth. Although roughly 60 percent of personal income is from net earnings, transfer payments account for 22 percent, or more than one in every five dollars of personal income. Recent years have seen transfer payments become the fastest growing component of regional personal income. This growth reflects an aging regional population, a surge of military veterans and the Great Recession; the later significantly increased payments from unemployment insurance and other low-income assistance programs.

Figure 3.6 shows the real (inflation adjusted) average annual growth per capita income for Avista's service area and the U.S. Note that in the 1980-90 period the service area experienced significantly lower income growth compared to the U.S. as a result of the back-to-back recessions of the early 1980s.⁷ The impacts of these recessions were more negative in the service area compared to the U.S. as a whole. As a result, the ratio of service area per capita income to U.S. per capita income fell from 93 percent in the previous decade to around 85 percent. The income ratio has not since recovered.

⁷ Data Source: Bureau of Economic Analysis.

Figure 3.6: MSA Real Personal Income Growth, 1970-2013

Five-Year Load Forecast Methodology

In non-IRP years, the retail and native load forecasts have a 60-month time horizon. Avista conducts the five-year forecast each spring with the option of second forecast in the winter if changing economic conditions warrant a new forecast. The results are fed into Avista's revenue model, which converts the load forecast into a revenue forecast. In turn, the revenue forecast feeds the company's earnings model. In IRP years, the long-term forecast bootstraps off the five-year forecast by applying a set of growth assumptions beyond year five.

Overview of the Five-Year Retail Load Forecast

The five-year retail load forecast is a two-step process. For most schedules in each class there is: (1) a monthly use per customer (UPC) forecast and (2) a monthly customer forecast.⁸ The load forecast is generated by multiplying the customer and UPC forecasts. The UPC and customer forecasts are generated using time-series econometrics, as shown in Equation 3.1.

⁸ For schedules representing a single customer, where there is no customer count and for street lighting, total load is forecast directly without first forecasting UPC.

Equation 3.1: Generating Schedule Total Load

$$F(kWh_{t,y_c+j,s}) = F(kWh/C_{t,y_c+j,s}) \times F(C_{t,y_c+j,s})$$

Where:

$F(kWh_{t,y_c+j,s})$ = the forecast for month t, year j = 1, ..., 5 beyond the current year, y_c , for schedule s.

$F(kWh/C_{t,y_c+j,s})$ = the UPC forecast.

$F(C_{t,y_c+j,s})$ = the customer forecast.

UPC Forecast Methodology

The econometric modeling for UPC is a variation of the “fully integrated” approach expressed by Faruqui (2000) in the following equation:⁹

Equation 3.2: Use Per Customer Regression Equation

$$kWh/C_{t,y,s} = \alpha W_{t,y} + \beta Z_{t,y} + \epsilon_{t,y}$$

The model uses actual historical weather, UPC, and non-weather drivers to estimate the regression in Equation 3.2. To develop the forecast, normal weather replaces actual weather (W) along with the forecasted values for the Z variables (Faruqui, pp. 6-7). Here, W is a vector of heating degree day (HDD) and cooling degree day (CDD) variables; Z is a vector of non-weather variables; and $\epsilon_{t,y}$ is an uncorrelated $N(0,\sigma)$ error term. For non-weather sensitive schedules, $W = 0$.

The W variables will be HDDs and CDDs. Depending on the schedule, the Z variables may include real average energy price (RAP); average household size (AHS); the U.S. Federal Reserve industrial production index (IP); non-weather seasonal dummy variables (SD); trend functions (T); and dummy variables for outliers (OL) and periods of structural change (SC). RAP is measured as the average annual price (schedule total revenue divided by schedule total usage) divided by the consumer price index (CPI), less energy. For most schedules, the only non-weather variables are SD, SC, and OL.

If the error term appears to be non-white noise, then the forecasting performance of Equation 3.3 can be improved by converting it into an ARIMA “transfer function” model such that $\epsilon_{t,y} = \text{ARIMA}\epsilon_{t,y}(p,d,q)(p_k,d_k,q_k)_k$. The term p is the autoregressive (AR) order, d is the differencing order, and q is the moving average (MA) order. The term p_k is the order of seasonal AR terms, d_k is the order of seasonal differencing, and q_k is the seasonal order of MA terms. The seasonal values relate to “k,” or the frequency of the data. With the current monthly data set, $k = 12$.

⁹ Faruqui, Ahmad (2000). *Making Forecasts and Weather Normalization Work Together*, Electric Power Research Institute, Publication No. 1000546, Tech Review, March 2000.

For certain schedules, such as those related to lighting, simpler regression and smoothing methods are used because they offer the best fit for irregular usage without seasonal or weather related behavior, is in a long-run steady decline, or is seasonal and unrelated to weather.

Normal weather for the forecast is a 20-year moving average of degree-days taken from the National Oceanic and Atmospheric Administration's Spokane International Airport data. Normal weather updates only when a full year of new data is available. For example, normal weather for 2015 would be the 20-year average of Avista's adjusted degree-days for the 1995 to 2014 period. For 2016, it would be the 1996 to 2015 period, and so forth. This means normal weather is updated at the end of each year.

The choice of a 20-year moving average for defining normal weather reflects several factors. First, recent climate research from the National Aeronautic and Space Administration's (NASA) Goddard Institute for Space Studies (GISS) shows a shift in temperature starting about 20 years ago. The GISS research finds that summer temperatures in the Northern Hemisphere have increased about one degree Fahrenheit above the 1951-1980 reference period, and the increase started roughly 20 years ago in the 1981-1991 period.¹⁰ An in-house analysis of temperature in Avista's Spokane-Kootenai service area, using the same 1951-1981 reference period, also shows an upward shift in temperature starting about 20-years ago. A detailed discussion of this analysis is in the peak-load forecast section.

The second factor in using a 20-year moving average is the volatility of the moving average as function of the years used to calculate the average. Moving averages of 10 and 15 years showed considerably more year-to-year volatility than the 20-year average. This volatility can obscure longer-term trends and lead to overly sharp changes in forecasted loads when the updated definition of normal weather is applied each year. These sharp changes would also cause excessive volatility in the revenue and earnings forecasts.

As noted earlier, if RAP, AHS, and IP appear in Equation 3.2, then they must also be forecasted for five years to generate the UPC forecast. The assumption in the 5-year forecast for this IRP is that RAP will increase two percent annually. This rate reflects the average annual real growth rate for the 2005-2013 period. AHS is constant at the 2012 level.¹¹ This reflects the relative stability of AHS over the 2006-2013 period. Table 3.1 shows the schedules using these three drivers.

¹⁰ See Hansen, J.; M. Sato; and R. Ruedy (2013). *Global Temperature Update Through 2012*, <http://www.nasa.gov/topics/earth/features/2012-temps.html>

¹¹ AHS only appears in the forecast equation for Washington Schedule 1 UPCAHS is not a statistically significant predictor of UPC and the sign on the estimated regression coefficient is not stable for Idaho Schedule 1.

Table 3.1: UPC Models Using Non-Weather Driver Variables

Schedule	Variables	Comment
Washington:		
Residential Schedule 1	RAP, AHS	
Commercial Schedule 31	RAP	Commercial pumping schedule
Industrial Schedule 31	RAP	
Industrial Schedules 11, 21, and 25	IP	
Idaho:		
Residential Schedule 1	RAP	AHS not a statistically significant or stable driver
Commercial Schedule 31	RAP	Commercial pumping schedule
Industrial Schedules 11 and 21	IP	

IP forecasts generate from a regression using the GDP forecast. Equation 3.3 and Figure 3.7 describes this process.

Equation 3.3: IP Regression Equation

$$GIP_{y,US} = v_0 + v_1GGDP_{y,US} + \epsilon_y$$

Where:

$GIP_{y,US}$ = the annual growth in IP in year y.

$GGDP_{y,US}$ = the annual growth in real GDP in year y.

ϵ_y = a random error term.

Equation 3.3 uses historical data and incorporates forecasts for GDP to forecast GIP over five years. GIP is an input for the generation of a forecast for the level of the IP index. The forecasts for GGDP reflect the average of forecasts from multiple sources. Sources include the Bloomberg survey of forecasts, the Philadelphia Federal Reserve survey of forecasters, the Wall Street Journal survey of forecasters, and other sources. Averaging forecasts reduces the systematic errors of a single-source forecast. This approach assumes that macroeconomic factors flow through UPC in the industrial schedules. This reflects the relative stability of industrial customer growth over the business cycle.

Figure 3.8 shows the historical relationship between the IP and industrial load for electricity.^{12,13} The load values have been seasonally adjusted using the Census X12 procedure. The historical relationship is positive for both loads. The relationship is very strong for electricity with the peaks and troughs in load occurring in the same periods as the business cycle peaks and troughs.

¹² Data Source: U.S. Federal Reserve and Avista records.

¹³ Figure 3.8 excludes one large industrial customer with significant load volatility.

Figure 3.7: Forecasting IP Growth

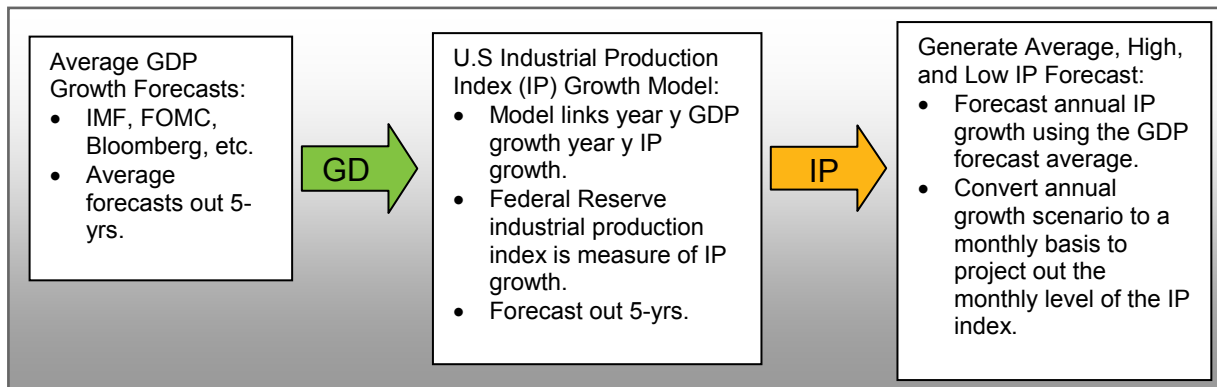
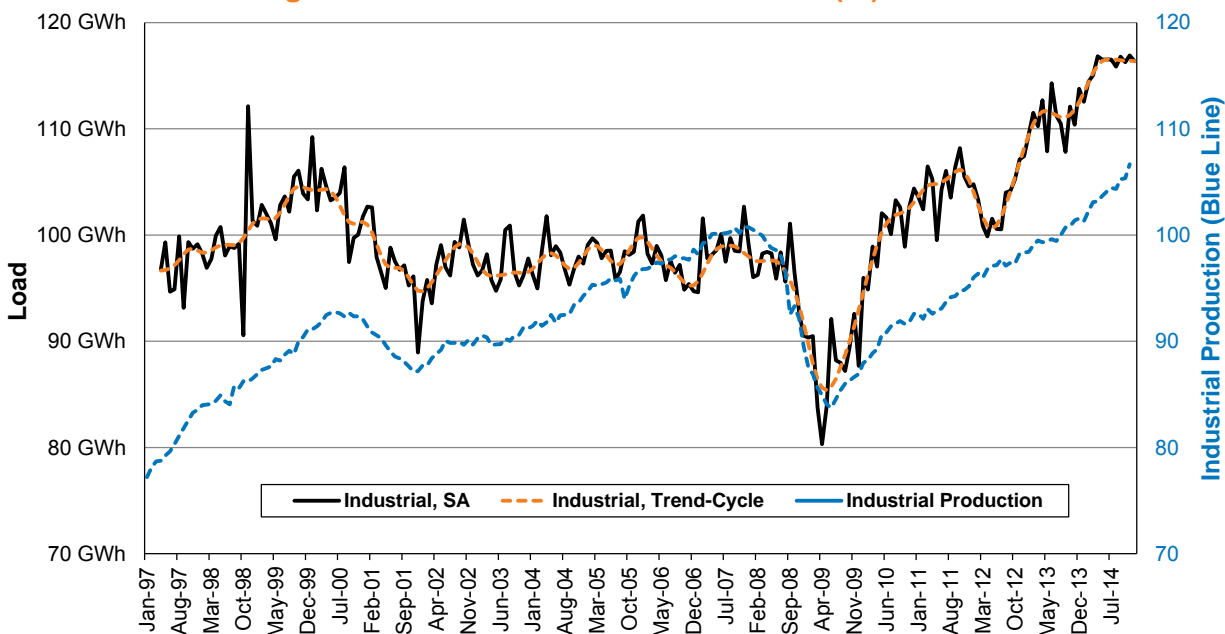


Figure 3.8: Industrial Load and Industrial (IP) Index



Customer Forecast Methodology

The econometric modeling for the customer models range from simple smoothing models to more complex ARIMA models. In some cases, a pure ARIMA model without any structural independent variables is used. For example, the independent variables are only the past values of the dependent variable (schedule customer counts). Because the customer counts in most schedules are either flat or growing in stable fashion, complex econometric models are generally unnecessary for generating reliable forecasts. Only in the case of certain residential and commercial schedules is more complex modeling required.

For the main residential and commercial schedules, the modeling approach needs to account for customer growth between these schedules having a high positive correlation over 12-month periods. This high customer correlation translates into a high

correlation over the same 12-month periods. Table 3.2 shows the correlation of customer growth between Avista’s residential, commercial, and industrial users of electricity and natural gas. To ensure the reflection of this relationship in the customer and load forecasts, the forecast models for the Washington and Idaho Commercial Schedules 11 use Washington and Idaho Residential Schedule 1 customers as a forecast driver. Historical and forecasted Residential Schedule 1 customers become drivers to generate customer forecasts for Commercial Schedule 11 customers.

Table 3.2: Customer Growth Correlations, January 2005-December 2013

Customer Class (Year-over-Year)	Residential, Year-over-Year	Commercial, Year-over-Year	Industrial, Year-over-Year	Streetlights, Year-over-Year
Residential	1			
Commercial	0.892	1		
Industrial	-0.285	-0.167	1	
Streetlights	-0.273	-0.245	0.209	1

Figure 3.9 shows the relationship between annual population growth and year-over-year customer growth.¹⁴ For the last 15 years, electricity customer growth has closely followed population growth in the combined Spokane-Kootenai MSAs. Both population and customer growth have averaged 1.2 percent annually over the 2000-14 period.

Figure 3.9: Population Growth vs. Customer Growth, 2000-2014

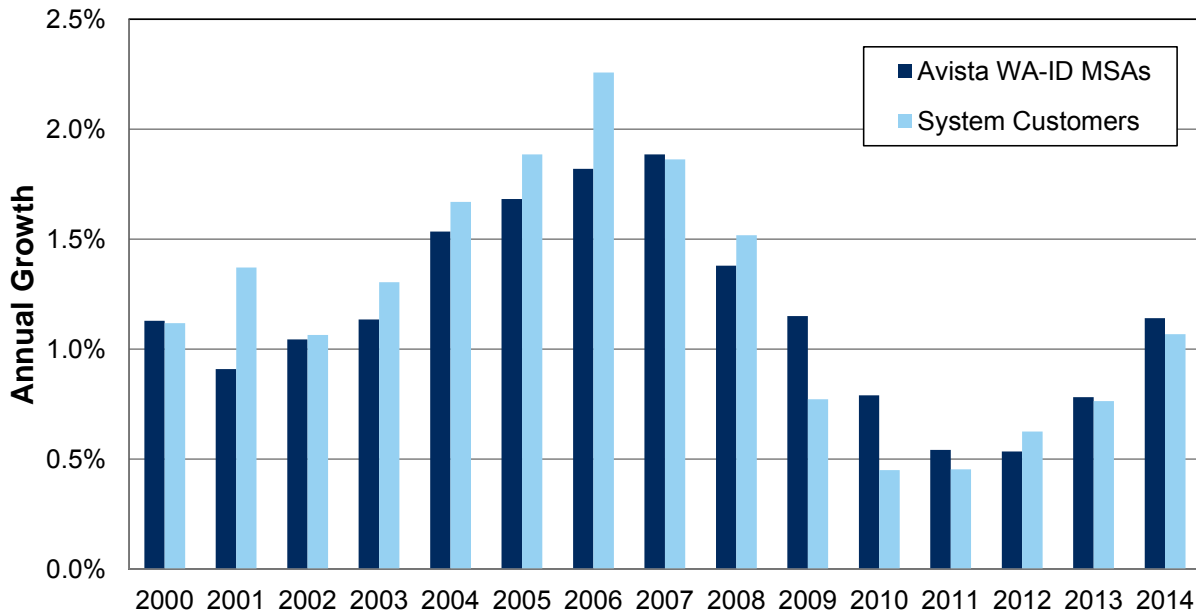
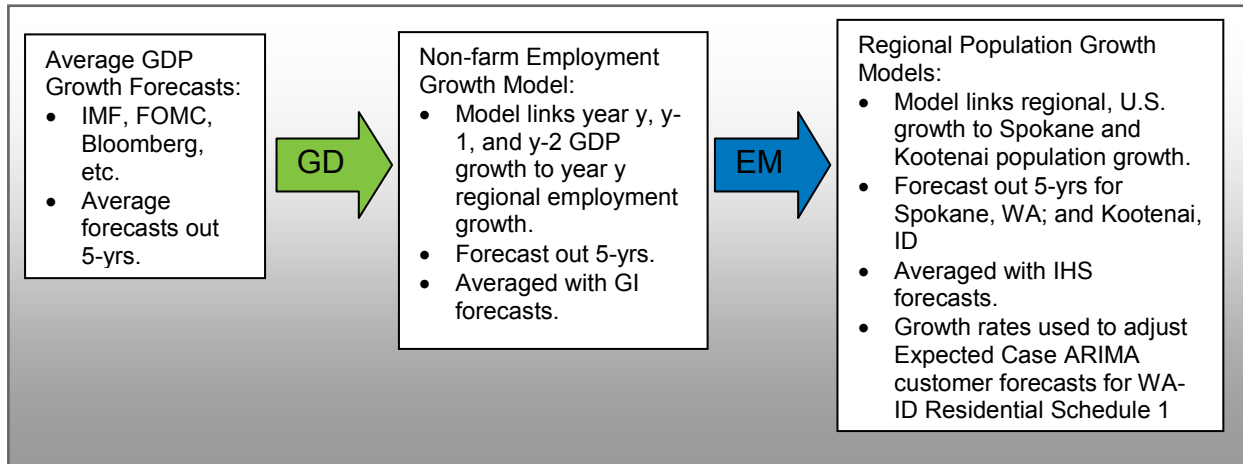


Figure 3.9 demonstrates that population growth can be used as a proxy for customer growth. As a result, forecasted population is an adjustment to Expected Case forecasts of Residential Schedule 1 customers in Washington and Idaho. That is, for schedule 1

¹⁴ Data Source: Bureau of Economic Analysis, U.S. Census, and Avista records.

in Washington and Idaho, an Expected Case forecast is made using an ARIMA times-series model. If the growth rates generated from this approach differ from forecasted population growth, the Expected Case forecasts are adjusted to match forecasted population growth. Figure 3.10 summarizes the forecasting process for population growth for use in Residential Schedule 1 customers.

Figure 3.10: Forecasting Population Growth



Forecasting population growth is a process that links U.S. GDP growth to service area employment growth and then links regional and national employment growth to service area population growth.

The forecasting models for regional employment growth are:

Equation 3.4: Spokane Employment Forecast

$$GEMP_{y,SPK} = \vartheta_0 + \vartheta_1 GGDP_{y,US} + \vartheta_2 GGDP_{y-1,US} + \vartheta_3 GGDP_{y-2,US} + \omega_{SC} D_{KC,1998-2000=1} + \omega_{SC} D_{HB,2005-2007=1} + \epsilon_{t,y}$$

Equation 3.5: Kootenai Employment Forecast

$$GEMP_{y,KOOT} = \delta_0 + \delta_1 GGDP_{y,US} + \delta_2 GGDP_{y-1,US} + \delta_3 GGDP_{y-2,US} + \omega_{OL} D_{1994=1} + \omega_{OL} D_{2009=1} + \omega_{SC} D_{HB,2005-2007=1} + \epsilon_{t,y}$$

Where:

SPK = the Spokane, WA MSA.

KOOT = the Kootenai, ID MSA.

GEMP_y = employment growth in year y.

GGDP_{y,US}, GGDP_{y-1,US}, and GGDP_{y-2,US} = U.S. real GDP growth in years y, y-1, and y-2.

D_{KC} and D_{HB} = structural change (SC) dummy variables for the closing of Kaiser Aluminum in Spokane.

For the housing bubble, specific to each region.

$D_{1994=1}$ and $D_{2009=1}$ = outlier (OL) dummy variables for 1994 and 2009 in Kootenai.

ϵ_y = a random error term.

The same average GDP growth forecasts used for the IP growth forecasts are inputs to generate five-year employment growth forecasts. Avista's employment forecasts are then averaged with IHS Connect's (formerly Global Insight) forecasts for the same counties. As noted earlier, averaging reduces the systematic errors of a single-source forecast. The averaged employment forecasts become inputs to generate the population growth forecasts. The forecasting models for regional population growth are:

Equation 3.6: Spokane Population Forecast

$$GPOP_{y,SPK} = \kappa_0 + \kappa_1 GEMP_{y-1,SPK} + \kappa_2 GEMP_{y-2,US} + \omega_{OL} D_{2001=1} + \epsilon_{t,y}$$

Equation 3.7: Kootenai Population Forecast

$$GPOP_{y,KOOT} = \alpha_0 + \alpha_1 GEMP_{y-1,KOOT} + \alpha_2 GEMP_{y-2,US} + \omega_{OL} D_{1994=1} + \omega_{OL} D_{2002=1} + \omega_{SC} D_{HB,2007\uparrow=1} + \epsilon_{t,y}$$

Where:

SPK = the Spokane, WA MSA.

KOOT = the Kootenai, ID MSA.

$GPOP_y$ = employment growth in year y .

$GEMP_{y-1}$ and $GEMP_{y-2}$ = employment growth in $y-1$ and $y-2$.

$D_{1994=1}$, $D_{2001=1}$, and $D_{2002=1}$ = outlier (OL) dummy variables for recession impacts

$D_{HB,2007\uparrow=1}$ = structural change (SC) dummy variable that adjusts for the after effects of the housing bubble collapse in the Kootenai, ID MSA.

Equations 3.6 and 3.7 are estimated using historical data. Next, the GEMP forecasts (the average of Avista and HIS forecasts) become inputs to Equations 3.6 and 3.7 to generate population growth forecasts. These forecasts, averaged with IHS's forecasts for the same MSAs, produce a final population forecast. This population growth forecast is used to adjust the Expected Case ARIMA generated forecasts for Residential Schedule 1 customers. This adjustment reconciles forecasted growth with forecasted population growth.

IRP Long-Run Load Forecast

The Basic Model

The long-run load forecast extends the five-year projection out to 2035. It includes the impacts from a growing electric vehicle (EV) fleet and residential rooftop photovoltaic solar (PV) installations. The long-run modeling approach starts with Equation 3.8.

Equation 3.8: Residential Long-Run Forecast Relationship

$$l_y = c_y + u_y$$

Where:

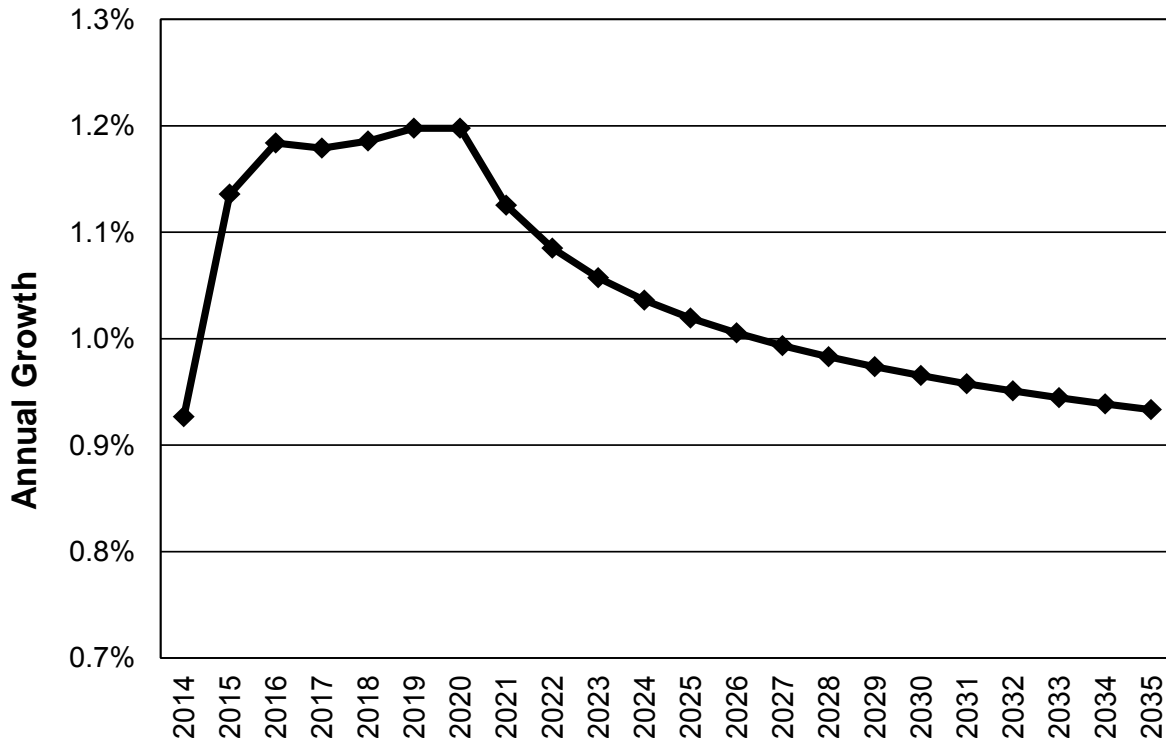
l_y = residential load growth in year y .

c_y = residential customer growth in year y .

u_y = UPC growth in year y .

Equation 3.8 sets the annual residential load growth equal to annual customer growth in plus the annual UPC growth.¹⁵ c_y is not dependent on weather, so where u_y values are weather normalized, l_y results are weather-normalized. By varying c_y and u_y , different long-run forecast simulations are generated. In the current IRP, attention is paid to varying c_y for economic reasons and u_y due to increased PV penetration.

Figure 3.11: Long-Run Annual Residential Customer Growth



¹⁵ Since $UPC = \text{load}/\text{customers}$, calculus shows that the annual percentage change $UPC \approx$ percentage change in load - percentage change in customers. Rearranging terms, we have, the annual percentage change in load \approx percentage change in customers + percentage change in UPC.

Expected Case Assumptions

The Expected Case forecast makes assumptions about the long-run relationship between residential, commercial, and industrial classes, as documented below.

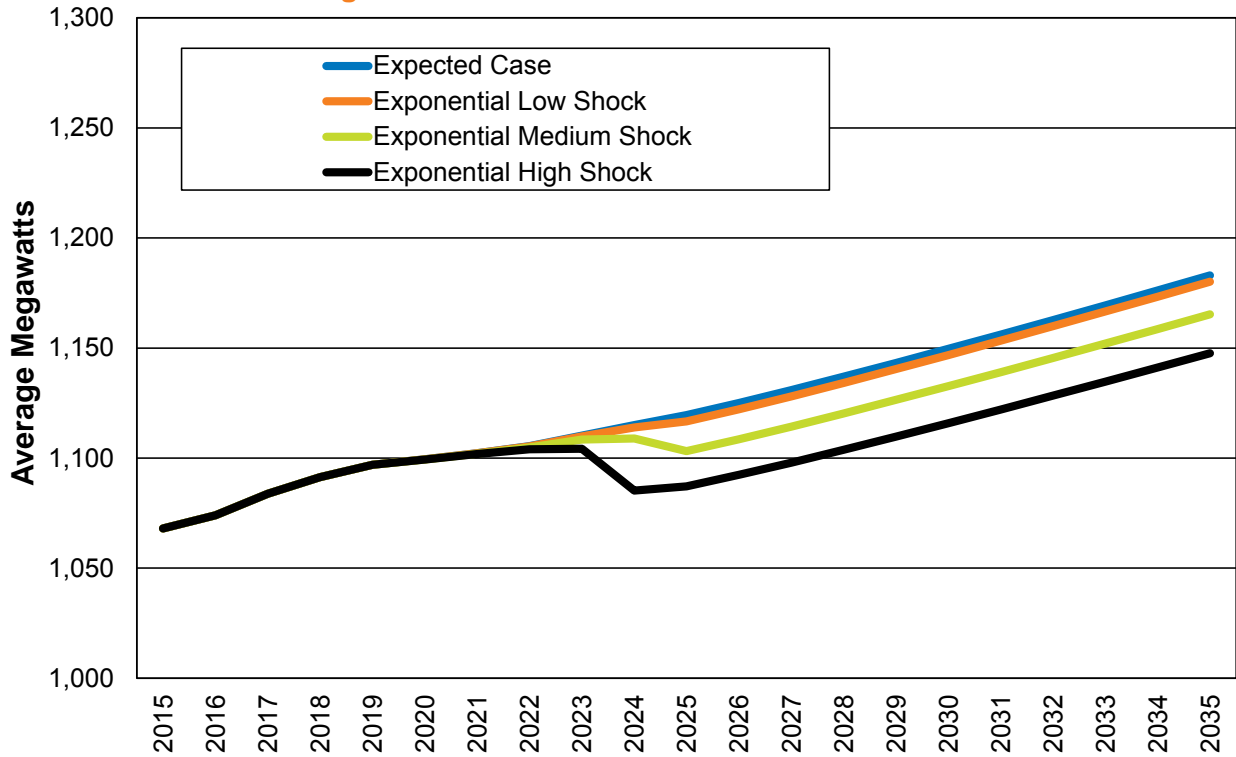
1. Long-run residential and commercial customer growth rates are the same for 2020 to 2040, consistent with historical growth patterns over the past decade. Figure 3.11 shows the Expected Case time path of residential customer growth. The average annual growth rate after 2019 is approximately one percent, assuming a gradual decline starting in 2020. This value was generated with the Employment and Population forecast Equations 3.4, 3.5, 3.6, and 3.7 in conjunction with IHS Connect's employment and population forecasts for the 2020-2014 period. The Expected Case assumes long-run U.S. employment growth of approximately 1.4 percent and service area employment growth of approximately 1.5 percent. These numbers result from assumed U.S. long-run GDP growth of approximately 2.4 percent. The annual industrial customer growth rate assumption is zero, matching historical growth patterns for of the past decade.
2. Commercial load growth follows changes in residential load growth, but with a spread of 0.5 percent. This assumption of high correlation is consistent with the high historical correlation between residential and commercial load growth. The 0.5 percent spread is in the range of historical norms and the forecasted growth spread from the five-year model.
3. Consistent with historical behavior, industrial and streetlight load growth projections are not correlated with residential or commercial load. For 2020-2035, annual industrial load growth is set at 0.5 percent and streetlight load growth at 0.1 percent. Both growth rates are in the range of historical norms and forecasted growth trends from the five-year model.
4. The real residential price per kWh increases at 2 percent per year until 2026. Up to 2026, this is the same as the nominal price increasing 4 percent a year assuming a non-energy inflation rate of 2 percent. The real price increase assumption is zero starting in 2026. This assumption means the nominal price is increasing at the same rate as consumer inflation, excluding energy. This assumption relies on historical trends in residential prices and current capital spending plans.
5. The own-price elasticity of UPC is set at -0.20. Own price elasticity was estimated from the five-year UPC forecast equations for Residential Schedule 1 in Washington and Idaho. Specifically, own price elasticity calculation uses the customer-weighted average between Washington and Idaho.
6. The AHS elasticity of UPC is set at 2.3. This assumes AHS is constant up to 2025, then starts to slowly decline through 2040. AHS elasticity estimates are from the five-year UPC forecast equations for Residential Schedule 1 in Washington and Idaho, using the customer-weighted average between Washington and Idaho.

7. From 2020 to 2023, depressed UPC growth results from new lighting and other efficiency standards. The impact is more gradual than the Energy Information Administration's (EIA) modeling assumptions in its 2014 Annual Energy Outlook. The EIA assumes a large decline in UPC growth in 2020 with a subsequent sharp rebound in 2021 that Avista believes is too volatile.
8. Electric vehicles grow at a rate consistent with the present adoption rates. Using Electric Power Research Institute data, Avista estimates that as of 2015 there are around 400 EVs registered in its service area. The forecasted rate of adoption over the 2020-35 period is a function of forecasted residential customer growth over the same period. The EV adoption rate assumption uses limited historical data for the 2010-2013 period to establish the relationship between residential customers and EVs. This analysis shows that for the 2010-2013 period, every 100 residential customers added approximately three new registered EVs to the counties in Avista's electric service area. However, since Avista serves less than 100 percent of the counties in the service area, this value is reduced by 0.5 percent as an approximation of the EVs that would rely on Avista for charging. Each EV uses 2,500 kWh per year in the forecast.
9. Rooftop PV penetration, measured as the share of PV residential customers to total residential customers, continues to grow at present levels in the forecast. The average PV system is forecast at the current median of 3.0 kilowatts and a 13 percent capacity factor. As of 2014, residential PV penetration was about 0.06 percent. The growth assumption is approximately 0.01 percent per year to 2040, resulting in a 2035 penetration rate of 0.29 percent. This slow rate of PV penetration growth is consistent with recent history.

Load Scenarios with PV

In addition to the Expected Case forecast, three alternatives illustrate the impacts of varying PV penetration by 2025: 1 percent (low shock scenario); 5 percent (medium shock scenario); and 10 percent (high shock scenario). In each scenario, 2025 the penetration rate is constant after 2025. Each shock case assumes that the PV system size grows each year so that by 2035 the typical system size equals 5,000 watts. All remaining assumptions in the PV penetration cases remain unchanged from the Expected Case. Figure 3.12 presents results of the Expected Case and shock scenarios. Figure 3.13 shows the annual growth rate in the load shown in Figure 3.12.

Figure 3.12: Load Scenarios with PV Shocks



Note that in all PV scenarios, load growth returns to the Expected Case by 2026 when the penetration rate stabilizes. Table 3.3 shows the average annual growth rates in native load for the five-year forecast and long-run forecast.

Figure 3.13: Load Growth Scenarios with PV Shocks

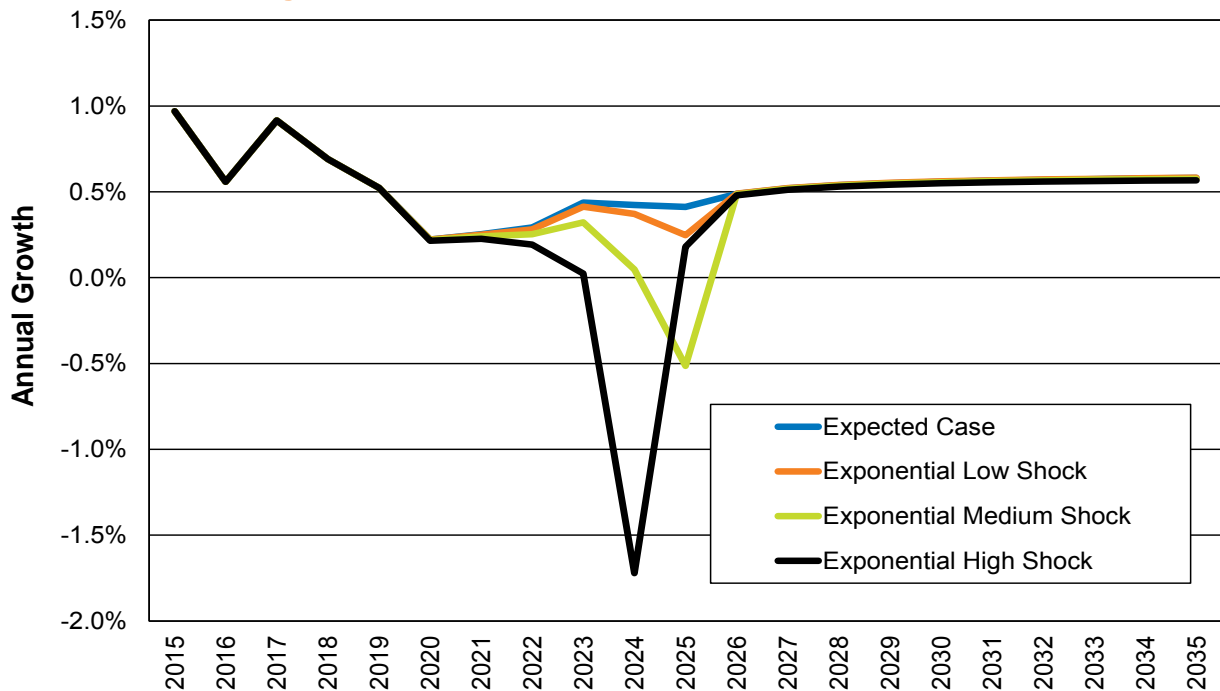


Table 3.3: Average Annual PV Scenario Growth for Selected Periods

PV Scenario	2015-2019 (Percent)	2020-2035 (Percent)	2015-2035 (Percent)
Expected Case	0.73	0.47	0.53
Low Shock	0.73	0.46	0.52
Medium Shock	0.73	0.38	0.46
High Shock	0.73	0.28	0.39

The model suggests that with PV penetration between 0.3 percent and 1.0 percent, load growth after 2020 averages around 0.5 percent. Penetration rates 5.0 percent and higher result in noticeable load growth declines.

Native Load Scenarios with Low/High Economic Growth

In the PV scenarios, native load changes because of varying PV growth assumptions. For load growth scenarios, Expected Case PV assumptions remain constant while regional economic growth levels vary. The high and low scenarios use the population growth Equations 3.6 and 3.7, holding U.S. employment growth constant at 1.4 percent, but varying MSA employment growth at higher and lower levels gauges the impacts on population growth and utility loads. See Table 3.4. The high/low range for service area employment growth reflects historical employment growth variability. Simulated population growth is a proxy for residential and customer growth in the long-run forecast model, and produces the high and low native load forecasts shown in Figure 3.14.

Table 3.4: High/Low Economic Growth Scenarios (2015-35)

Economic Growth	Annual U.S. Employment Growth (percent)	Annual Service Area Employment Growth (percent)	Annual Population Growth (percent)
Expected Case	1.4	1.5	1.0
High Growth	1.4	2.3	1.6
Low Growth	1.4	0.7	0.8

Figure 3.14: Average Megawatts, High/Low Economic Growth Scenarios

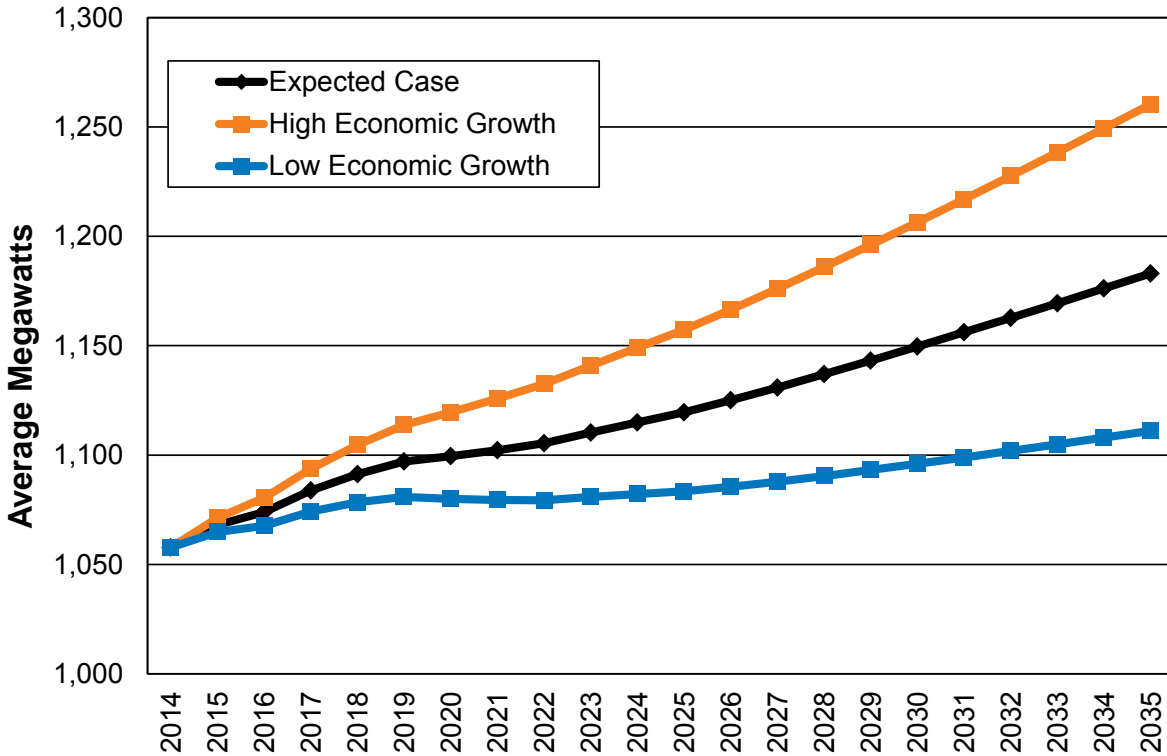


Table 3.5 is the average annual growth rate over the 2015-2035 period. The low growth scenario predicts a slight load decline over 2020-2022 due to the impact of the phased-in efficiency standards discussed in assumption 7 of the Expected Case Assumptions listed above.

Table 3.5: Load Growth for High/Low Economic Growth Scenarios (2015-35)

Economic Growth	Average Annual Native Load Growth (percent)
Expected Case	0.53
High Growth	0.83
Low Growth	0.23

Long-Run Forecast Residential Retail Sales

Focusing on residential kWh sales, Figure 3.15 is the Expected Case residential UPC growth plotted against the EIA’s annual growth forecast of U.S. residential use per household growth. The EIA’s forecast is from the 2014 Annual Energy Outlook. Avista’s forecast never shows positive UPC growth; in contrast, the EIA forecasts positive UPC growth returning in 2033. The EIA forecast reflects a population shift to warmer-climate states where air conditioning is typically required most of the year.

Figure 3.15: UPC Growth Forecast Comparison to EIA

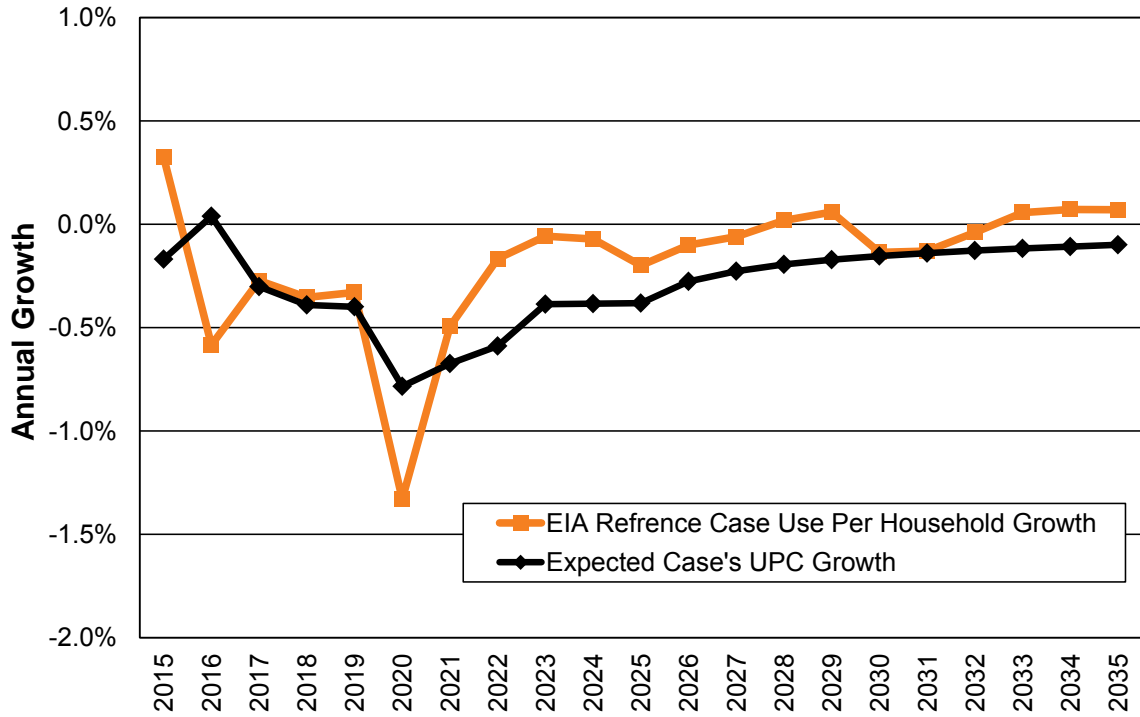
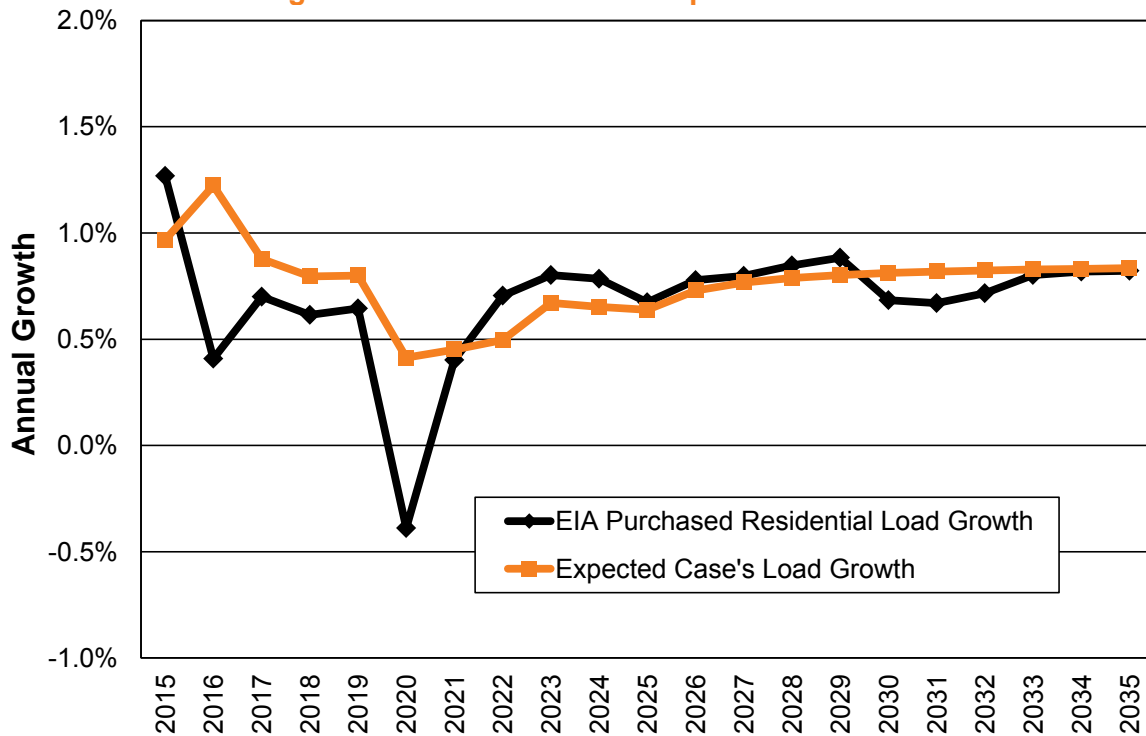


Figure 3.16 shows the EIA and Expected Case residential load growth forecasts of residential load growth. Avista’s forecast is higher in the 2015-2020 period, reflecting an assumption that service area population growth will be stronger than the U.S. average.

Figure 3.16: Load Growth Comparison to EIA



Monthly Peak Load Forecast Methodology

The Peak Load Regression Model

The peak load forecast helps Avista determine the amount of resources necessary to meet peak demand. In particular, Avista must build generation capacity to meet winter and summer peak periods. Looking forward, the highest peak loads are most likely to occur in the winter months, although in some years a mild winter followed by a hot summer could find the annual maximum peak load occurring in a summer hour. This said, on a planning basis where extreme weather is forecast to occur in the winter, peak loads occur in the winter throughout the IRP timeframe. Equation 3.9 shows the current peak load regression model.

Equation 3.9: Peak Load Regression Model

$$\begin{aligned} hMW_{d,t,y}^{netpeak} = & \lambda_0 + \lambda_1 HDD_{d,t,y} + \lambda_2 (HDD_{d,t,y})^2 \\ & + \lambda_3 HDD_{d-1,t,y} + \lambda_4 CDD_{d,t,y} + \lambda_5 CDD_{d,t,y}^{HIGH} + \lambda_6 CDD_{d-1,t,y} + \phi_1 GDP_{q(t).y-1} \\ & + \omega_{WD} D_{d,t,y} + \omega_{SD} D_{t,y} + \omega_{OL} D_{Mar\ 2005=1} + \omega_{OL} D_{Feb\ 2012=1} + \epsilon_{d,t,y} \end{aligned}$$

Where:

$hMW_{d,t,y}^{netpeak}$ = metered peak hourly usage on day of week d, in month t, in year y and excludes two large industrial producers. The data series starts in June 2004.

$HDD_{d,t,y}$ and $CDD_{d,t,y}$ = heating and cooling degree days the day before the peak.

$(HDD_{d,t,y})^2$ = squared value of $HDD_{d,t,y}$. $HDD_{d-1,t,y}$ and $CDD_{d-1,t,y}$ = heating and cooling degree days the day before the peak.

$CDD_{d,t,y}^{HIGH}$ = maximum peak day temperature minus 65 degrees. This term provides a better model fit than the square of CDD.

$GDP_{q(t).y-1}$ = level of real GDP in quarter q covering month t in year y-1.

$\omega_{WD} D_{d,t,y}$ = dummy vector indicating the peak's day of week.

$\omega_{SD} D_{t,y}$ = seasonal dummy vector indicating the month; and the other dummy variables control for outliers in March 2005 and February 2012.

$\epsilon_{d,t,y}$ = uncorrelated $N(0, \sigma)$ error term.

Generating Weather Normal Growth Rates Based on a GDP Driver

Equation 3.9 coefficients identify the month and day most likely to result in a peak load in the winter or summer. By assuming normal peak weather and switching on the dummy variables for day (d_{MAX}) and month (t_{MAX}) that maximize weather normal peak conditions in winter and summer, a series of peak forecasts from the current year, y_c , are generated out N years by using forecasted levels of GDP as shown in Equation 3.3.¹⁶ All other factors besides GDP remain constant to determine the impact of GDP on peak load. For winter, this is defined as the forecasted series W:

$$W = \{F(hMW_{d_{MAX},t_{MAX},y_c+1}^{WN,netpeak,W}), F(hMW_{d_{MAX},t_{MAX},y_c+2}^{WN,netpeak,W}), \dots, F(hMW_{d_{MAX},t_{MAX},y_c+N}^{WN,netpeak,W})\}$$

¹⁶ Forecasted GDP is generated by applying the averaged GDP growth forecasts used for the employment and industrial production forecasts discussed previously.

For summer, this is defined as the forecasted series S:

$$S = \{F(hMW_{d_{MAX},t_{MAX},y_{c+1}}^{WN,netpeak,S}), F(hMW_{d_{MAX},t_{MAX},y_{c+2}}^{WN,netpeak,S}), \dots, F(hMW_{d_{MAX},t_{MAX},y_{c+N}}^{WN,netpeak,S})\}$$

Both S and W are convertible to a series of annual growth rates, GhMW. Peak load growth forecast equations are shown below as winter (W_G) and summer (S_G .)

$$W_G = \{F(GhMW_{d_{MAX},t_{MAX},y_{c+1}}^{WN,netpeak,W}), F(GhMW_{d_{MAX},t_{MAX},y_{c+2}}^{WN,netpeak,W}), \dots, F(GhMW_{d_{MAX},t_{MAX},y_{c+N}}^{WN,netpeak,W})\}$$

$$S_G = \{F(GhMW_{d_{MAX},t_{MAX},y_{c+1}}^{WN,netpeak,S}), F(GhMW_{d_{MAX},t_{MAX},y_{c+2}}^{WN,netpeak,S}), \dots, F(GhMW_{d_{MAX},t_{MAX},y_{c+N}}^{WN,netpeak,S})\}$$

In Equation 3.10, holding all else constant, growth rates are applied to simulated peak loads generated for the current year, y_c , for each month, January through December. These peak loads are generated by running actual extreme weather days observed since 1890. The following section describes this process.

Simulated Extreme Weather Conditions with Historical Weather Data

Equation 3.10 generates a series of simulated extreme peak load values for heating degree days.

Equation 3.10: Peak Load Simulation Equation for Winter Months

$$\widehat{hMW}_{t,y}^W = a + \widehat{\lambda}_1 HDD_{t,y,MIN} + \widehat{\lambda}_2 (HDD_{t,y,MIN})^2 \text{ for } t = \text{Jan}, \dots, \text{Dec if maximum avg. temp} < 65 \text{ and } y = 1890, \dots, y_c$$

Where:

$\widehat{hMW}_{t,y}^W$ = simulated winter peak megawatt load using historical weather data.

$HDD_{t,y,MIN}$ = heating degree days calculated from the minimum (MIN) average temperature (average of daily high and low) on day d, in month t, in year y if in month t the maximum average temperature (average of daily high and low) is less than 65 degrees.

a = aggregate impact of all the other variables held constant at their average values.

Similarly, the model for cooling degree days is:

Equation 3.11: Peak Load Simulation Equation for Summer Months

$$\widehat{hMW}_{t,y}^S = a + \widehat{\lambda}_4 CDD_{t,y,MAX} \text{ for } t = \text{Jan}, \dots, \text{Dec if maximum avg. temp} > 65 \text{ and } y = 1890, \dots, y_c$$

Where:

$\widehat{hMW}_{t,y}^S$ = simulated winter peak megawatt load using historical weather data.

$CDD_{t,y,MAX}$ = cooling degree days calculated from the maximum (MAX) average temperature. The average of daily high (H) and low (L) on day d, in month t, in year y if in month t if the maximum average temperature (average of daily high and low) is greater than 65 degrees.

a = aggregate impact of all the other variables held constant at their average values.

Given over 100 years of average maximum and minimum temperature data, Equations 3.10 and 3.11 applied to each month t will produce over 100 simulated values of peak load that can be averaged to generate a forecasted average peak load for month t in the current year, y_c . The average for each month are shown by Equations 3.12 and 3.13

Equation 3.12: Current Year Peak Load for Winter Months

$$F(hMW_{t,y_c}^W) = \frac{1}{(y_c - 1890) + 1} \sum_{y=1890}^{y_c} \widehat{hMW}_{t,y}^W \text{ for each heating month } t$$

where maximum avg. temp < 65

Equation 3.13: Current Year Peak Load for Summer Months

$$F(hMW_{t,y_c}^S) = \frac{1}{(y_c - 1890) + 1} \sum_{y=1890}^{y_c} \widehat{hMW}_{t,y}^S \text{ for each cooling month } t$$

where maximum avg. temp > 65

Forecasts beyond y_c are generated using the appropriate growth rate from series W_G and S_G . For example, the forecasts for y_{c+1} for winter and summer are:

$$F(hMW_{t,y_{c+1}}^{WN,netpeak,W}) = F(hMW_{t,y_c}^W) * [1 + F(GhMW_{d_{MAX},t_{MAX},y_{c+1}}^{WN,netpeak,W})]$$

$$F(hMW_{t,y_{c+1}}^{WN,netpeak,S}) = F(hMW_{t,y_c}^S) * [1 + F(GhMW_{d_{MAX},t_{MAX},y_{c+1}}^{WN,netpeak,S})]$$

The peak load forecast is finalized when the loads of the two large industrial customers excluded from the Equation 3.12 and 3.13 estimation are added back in.

Table 3.6 shows estimated peak load growth rates with and without the two large industrial customers. Figure 3.17 shows the forecasted time path of peak load out to 2040, and Figure 3.18 shows the high/low bounds based on a one in 20 event (95 percent confidence interval) using the standard deviation of the simulated peak loads from Equations 3.12 and 3.13.

Table 3.6: Forecasted Winter and Summer Peak Growth, 2015-2035

Category	Winter (Percent)	Summer (Percent)
Excluding Large Industrial Customers	0.74	0.85
Including Large Industrial Customers	0.68	0.79

Table 3.6 shows that the summer peak is forecast to grow faster than the winter peak. Given this growth differential, the summer peak will reach the winter peak in roughly 85 to 90 years. Under current growth forecasts, the orange summer line in Figure 3.17 will converge with the blue winter line in 2100. Figure 3.18 shows that the winter high/low bound considerably larger than summer, and reflects a greater range of temperature anomalies in the winter months. Table 3.7 shows the energy and peak forecasts.

Figure 3.17: Peak Load Forecast 2015-2035

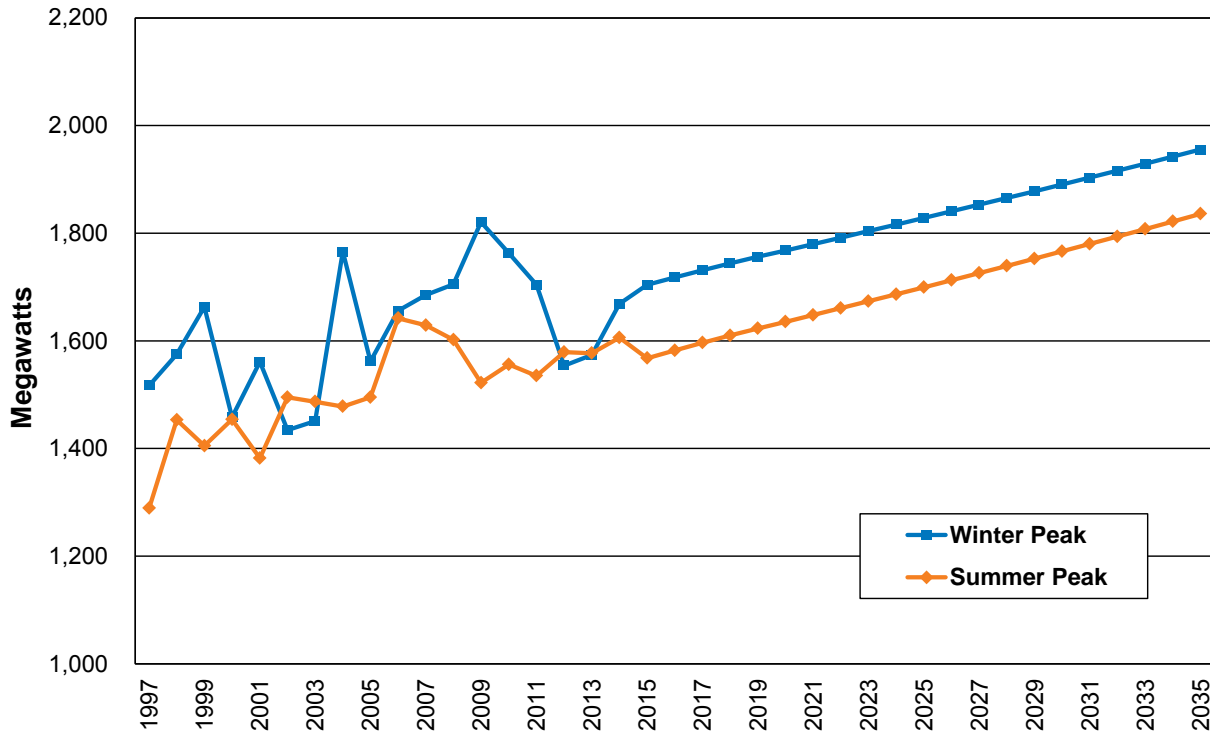


Figure 3.18: Peak Load Forecast with 1 in 20 High/Low Bounds, 2015-2035

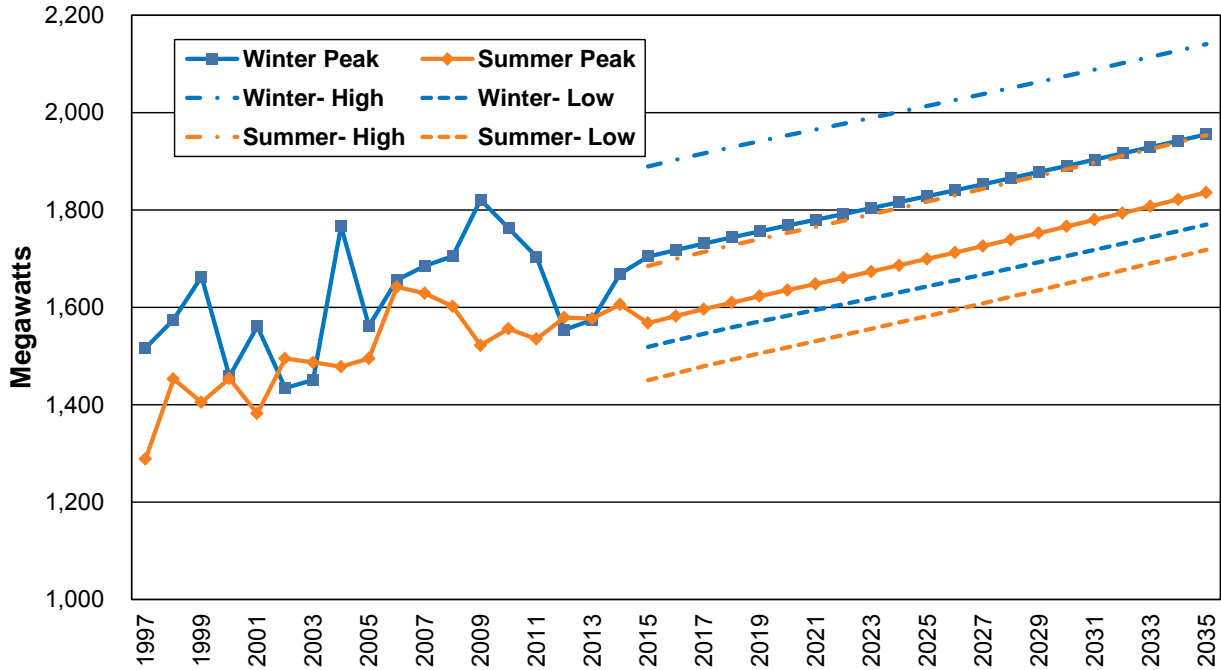


Table 3.7: Energy and Peak Forecasts

Year	Energy (aMW)	Winter Peak (MW)	Summer Peak (MW)
2016	1,074	1,718	1,582
2017	1,084	1,731	1,596
2018	1,091	1,744	1,610
2019	1,097	1,756	1,623
2020	1,099	1,768	1,635
2021	1,102	1,780	1,648
2022	1,105	1,792	1,661
2023	1,110	1,804	1,674
2024	1,115	1,816	1,686
2025	1,120	1,828	1,699
2026	1,125	1,840	1,713
2027	1,131	1,853	1,726
2028	1,137	1,865	1,739
2029	1,143	1,878	1,753
2030	1,150	1,891	1,766
2031	1,156	1,903	1,780
2032	1,163	1,916	1,794
2033	1,169	1,929	1,808
2034	1,176	1,942	1,822
2035	1,183	1,955	1,836

Testing for Changes in Extreme Temperature Behavior

Much load forecasting discussion revolves around the impacts of global warming, and the relevancy of historical temperature data when forecasting future peak loads. To validate the use of historical temperatures in the peak load forecast, an analysis was conducted using the same GISS methodology and reference period referenced in the UPC forecast methodology section. In particular, using 1951-1981 as the reference period, Avista examined daily temperature anomalies using daily temperature data from the Spokane International Airport going back to 1947. The analysis focused on the core summer months (June, July, and August) and winter months (December, January, and February). The GISS study only considered summer months and found, in addition to an increase in the average temperature in the summer, the variance around the average increased. Specifically, the frequency of extreme temperature anomalies three or more standard deviations above the summer average increased compared to the 1951 to 1981 reference period. In contrast, while Avista's analysis shows increased average temperatures compared to the reference period, there was no significant shift in the frequency of extreme temperature events. This finding supports continued use of historical temperature extremes for peak load forecasting.

4. Existing Supply Resources

Introduction & Highlights

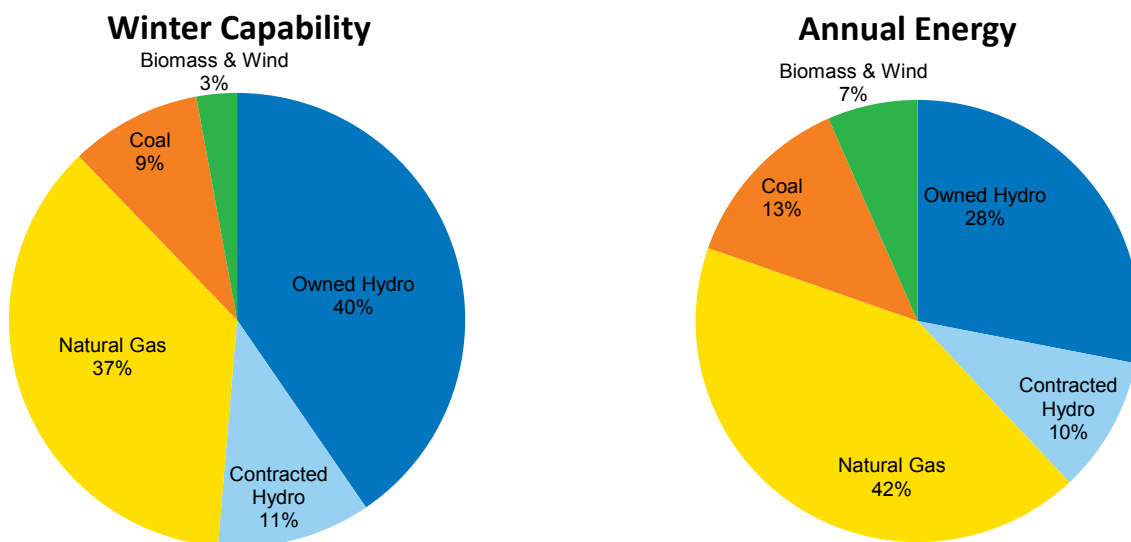
Avista relies on a diverse portfolio of assets to meet customer loads, including owning and operating eight hydroelectric developments on the Spokane and Clark Fork rivers. Its thermal assets include partial ownership of two coal-fired units, five natural gas-fired projects, and a biomass plant. Avista purchases energy from several independent power producers (IPPs), including Palouse Wind and the City of Spokane.

Section Highlights

- Hydroelectric represents about half of Avista’s winter generating capability.
- Natural gas-fired plants represent the largest portion of generation potential.
- Seven percent of Avista’s generating potential is biomass and wind.
- A major rehabilitation project for Nine Mile Falls ends in 2016.
- 280 of Avista customers net meter 1.8 megawatts of their own generation.

Figure 4.1 shows Avista’s capacity and energy supply mix. Winter capability is the share of total capability of each resource type the utility can rely upon to meet peak load (absent outages). The energy chart represents the energy as a percent of total supply; this calculation includes fuel limitations (for water, wind, and wood), maintenance and forced outages. Avista’s largest supply in the peak winter months is hydroelectric at 51 percent, followed by natural gas. On an energy capability basis, natural gas-fired generation can produce more energy at 42 percent, than hydroelectric at 37 percent, because it is not constrained by fuel limitations. In any given year, the resource mix will change depending on streamflow conditions and market prices.

Figure 4.1: 2016 Avista Capability & Energy Fuel Mix



Avista reports its fuel mix annually in the Washington State Fuel Mix Disclosure. The State calculates the resource mix used to serve load, rather than generation potential, by adding regional estimates for unassigned market purchases and Avista-owned generation stripped of environmental attributes from renewable energy credit (REC) sales.

Spokane River Hydroelectric Developments

Avista owns and operates six hydroelectric developments on the Spokane River. Five of these developments operate under a 50-year FERC operating license issued in June 2009. The sixth, Little Falls, operates under a separate license authorized by the U.S. Congress. This section describes the Spokane River developments and provides the maximum on-peak and nameplate capacity ratings for each plant. The maximum on-peak capacity of a generating unit is the total amount of electricity it can safely generate with its existing configuration and state of the facility. This capacity is often higher than the nameplate rating for hydroelectric developments because of plant upgrades. The nameplate, or installed capacity, is the capacity of a plant as rated by the manufacturer. All six hydroelectric developments on the Spokane River connect directly to the Avista transmission grid.

Post Falls

Post Falls is the facility furthest upstream on the Spokane River. It is located several miles east of the Washington/Idaho border. It began operating in 1906, and during summer months maintains the elevation of Lake Coeur d'Alene. Post Falls has a 14.75-MW nameplate rating and is capable of producing up to 18.0 MW with its six generating units.

Upper Falls

The Upper Falls development sits within the boundaries of Riverfront Park in downtown Spokane. It began generating in 1922. The project is comprised of a single 10.0-MW nameplate unit with a 10.26-MW maximum capacity rating.

Monroe Street

Monroe Street was Avista's first generation development. It began serving customers in 1890 in downtown Spokane near Riverfront Park. Rebuilt in 1992, the single generating unit has a 14.8-MW nameplate rating and a 15.0-MW maximum capacity rating. Avista redeveloped the Huntington Park area around this facility in 2014 in honor of the company's 125th anniversary.



Huntington Park, Downtown Spokane, WA

Nine Mile

A private developer built the Nine Mile development in 1908 near Nine Mile Falls, Washington. Avista (then Washington Water Power) purchased the project in 1925 from the Spokane & Inland Empire Railroad Company.

Nine Mile is undergoing substantial upgrades scheduled for completion in 2016. Two 8-MW units will replace its existing 3-MW units. Once operational the new units will add 1.4 aMW of energy beyond the plant's original configuration, and bring total operating capability to 32 MW. The nameplate rating of the facility will rise to 36 MW. In addition to capacity upgrades, the facility will receive new hydraulic governors, static excitation systems, switchgear, station service, control and protection packages, ventilation, rehabilitation of intake gates and sediment bypass system, and other investments.

Long Lake

The Long Lake development is located northwest of Spokane and maintains the Lake Spokane reservoir, also known as Long Lake. The plant received new runners in the 1990s, bringing the project's four units to a nameplate rating of 81.6 MW and 88.0 MW of combined capacity.

Little Falls

The Little Falls development, completed in 1910 near Ford, Washington, is the furthest downstream hydroelectric facility on the Spokane River. A new runner upgrade in 2001 added 0.6 aMW of energy generation to the project. The facility's four units generate 35.2 MW of on-peak capacity and have a 32.0 MW nameplate rating. Avista is carrying out a series of upgrades to the Little Falls development. Much of the new electrical equipment and the installation of a new generator excitation system are complete. Current projects include replacing station service equipment, updating the powerhouse crane, and developing new control schemes and panels. After the preliminary work is

completed, replacing generators, turbines, and unit protection and control systems on the four units will start.

Clark Fork River Hydroelectric Development

The Clark Fork River Development includes hydroelectric projects located near Clark Fork, Idaho, and Noxon, Montana, 70 miles south of the Canadian border. The plants operate under a FERC license through 2046. Both hydroelectric projects on the Clark Fork River connect to the Avista transmission system.

Cabinet Gorge

Cabinet Gorge started generating power in 1952 with two units, and added two additional generators the following year. The current maximum on-peak plant capacity is 270.5 MW; it has a nameplate rating of 265.2 MW. Upgrades at this project began with the replacement of the Unit 1 turbine in 1994. Unit 3 received an upgrade in 2001. Unit 2 received an upgrade in 2004. Unit 4 received a turbine runner upgrade in 2007.

Noxon Rapids

The Noxon Rapids development includes four generators installed between 1959 and 1960, and a fifth unit added in 1977. Avista completed major turbine upgrades on units 1 through 4 between 2009 and 2012. The upgrades increased the capacity of each unit from 105 MW to 112.5 MW and added 6.6 aMW of additional energy.

Total Hydroelectric Generation

Avista's hydroelectric plants have 1,065.4 MW of on-peak capacity. Table 4.1 summarizes the location and operational capacities of Avista's hydroelectric projects. This table includes the expected energy output of each facility based on the 80-year hydrologic record.

Table 4.1: Avista-Owned Hydroelectric Resources

Project Name	River System	Location	Nameplate Capacity (MW)	Maximum Capability (MW)	Expected Energy (aMW)
Monroe Street	Spokane	Spokane, WA	14.8	15.0	11.2
Post Falls	Spokane	Post Falls, ID	14.8	18.0	9.4
Nine Mile	Spokane	Nine Mile Falls, WA	36.0	32	15.7
Little Falls	Spokane	Ford, WA	32.0	35.2	22.6
Long Lake	Spokane	Ford, WA	81.6	89.0	56.0
Upper Falls	Spokane	Spokane, WA	10.0	10.2	7.3
Cabinet Gorge	Clark Fork	Clark Fork, ID	265.2	270.5	123.6
Noxon Rapids	Clark Fork	Noxon, MT	518.0	610.0	196.5
Total			962.4	1,065.4	442.3

Thermal Resources

Avista owns seven thermal generation assets located across the Northwest. Based on IRP analyses, Avista expects each plant to continue operation through the 20-year IRP

planning horizon. The resources provide dependable energy and capacity to serve base and peak load obligations. A summary of Avista's thermal resources is in Table 4.2.

Colstrip Units 3 and 4

The Colstrip plant, located in Eastern Montana, consists of four coal-fired steam plants connected to a double circuit 500 kV BPA transmission line under a long-term wheeling agreement. Talen Energy Corporation operates the facilities on behalf of the six owners. Avista has no ownership interest in units one or two, but owns 15 percent of Units 3 and 4. Unit 3 began operating in 1984 and Unit 4 was finished in 1986. The Avista share of Colstrip Units 3 and 4 has a maximum net capacity of 222.0 MW, and a nameplate rating of 247.0 MW.

Rathdrum

Rathdrum consists of two simple-cycle combustion turbine units. This natural gas-fired plant is located near Rathdrum, Idaho and connects to the Avista transmission system. It entered service in 1995 and has a maximum capacity of 178.0 MW in the winter and 126.0 MW in the summer. The nameplate rating is 166.5 MW.

Northeast

The Northeast plant, located in Spokane, has two aero-derivative simple-cycle units completed in 1978. It connects to Avista's transmission system. The plant is capable of burning natural gas or fuel oil, but current air permits preclude the use of fuel oil. The combined maximum capacity of the units is 68.0 MW in the winter and 42.0 MW in the summer, with a nameplate rating of 61.2 MW. The plant is limited to run no more than approximately 550 hours per year.

Boulder Park

The Boulder Park project entered service in the Spokane Valley in 2002 and connects directly to the Avista transmission system. The site uses six natural gas-fired internal combustion reciprocating engines to produce a combined maximum capacity and nameplate rating of 24.6 MW.

Coyote Springs 2

Coyote Springs 2 is a natural gas-fired combined cycle combustion turbine located near Boardman, Oregon. The plant connects to the BPA 500 kV transmission system under a long-term agreement. The plant began service in 2003 with a maximum capacity of 285 MW in the winter and 250 MW in the summer, with duct burners providing additional capacity of up to 27 MW. The plant nameplate rating of the plant is 287.3 MW.

Recent upgrades to Coyote Springs 2 include cooling optimization and cold day controls. The cold day controls remove firing temperature suppression that occurs when ambient temperatures are below 60 degrees. The upgrade improves the heat rate by 0.5 percent and output by approximately 2.0 MW during cold temperature operations. The cooling optimization package improves compressor and natural gas turbine efficiency, resulting in an overall increase in plant output of 2.0 MW. In addition to these upgrades, Coyote Springs 2 now has a Mark VIe control upgrade, a new digital front

end on the EX2100 gas turbine exciter, and model-based control with enhanced transient capability. Each of these upgrades allows Avista to maintain high reliability, reduce future O&M costs, maintain compliance with WECC reliability standards, and help prevent damage to the machine during electrical system disturbances.

Kettle Falls Generation Station and Kettle Falls Combustion Turbine

The Kettle Falls Generating Station, a biomass facility, entered service in 1983 near Kettle Falls, Washington. It is among the largest biomass plants in North America and connects to Avista on its 115 kV transmission system. The open-loop biomass steam plant uses waste wood products from area mills and forest slash, but can also burn natural gas. A combustion turbine (CT), added to the facility in 2002, burns natural gas and increases overall plant efficiency by sending exhaust heat to the wood boiler.

The wood-fired portion of the plant has a maximum capacity of 50.0 MW, and its nameplate rating is 50.7 MW. The plant typically operates between 45 and 47 MW because of fuel conditions. The plant's capacity increases to 55.0 to 58.0 MW when operated in combined-cycle mode with the CT. The CT produces 8 MW of peaking capability in the summer and 11 MW in the winter. The CT resource can be limited in the winter when the natural gas pipeline is capacity constrained. For IRP modeling, the CT does not run when temperatures fall below zero. This operational assumption reflects natural gas availability limits on the plant when local natural gas distribution demand is highest.

Table 4.2: Avista-Owned Thermal Resources

Project Name	Location	Fuel Type	Start Date	Winter Maximum Capacity (MW)	Summer Maximum Capacity (MW)	Nameplate Capacity (MW)
Colstrip 3 (15%)	Colstrip, MT	Coal	1984	111.0	111.0	123.5
Colstrip 4 (15%)	Colstrip, MT	Coal	1986	111.0	111.0	123.5
Rathdrum	Rathdrum, ID	Gas	1995	176.0	130.0	166.5
Northeast	Spokane, WA	Gas	1978	66.0	42.0	61.2
Boulder Park	Spokane, WA	Gas	2002	24.6	24.6	24.6
Coyote Springs 2	Boardman, OR	Gas	2003	312.0	277.0	287.3
Kettle Falls	Kettle Falls, WA	Wood	1983	47.0	47.0	50.7
Kettle Falls CT ¹	Kettle Falls, WA	Gas	2002	11.0	8.0	7.5
Total				858.6	750.6	844.8

Power Purchase and Sale Contracts

Avista uses purchase and sale arrangements of varying lengths to meet a portion of its load requirements. Contracts provide many benefits, including environmentally low-impact and low-cost hydroelectric and wind power. This chapter describes the contracts

¹ The Kettle Falls CT numbers include output of the natural gas turbine plus the benefit of its steam to the main unit's boiler.

in effect during the timeframe of the 2015 IRP. Tables 4.3 through 4.5 summarize Avista's contracts.

Mid-Columbia Hydroelectric Contracts

During the 1950s and 1960s, Public Utility Districts (PUDs) in central Washington developed hydroelectric projects on the Columbia River. Each plant was large when compared to loads then served by the PUDs. Long-term contracts with public, municipal, and investor-owned utilities throughout the Northwest assisted with project financing, and ensured a market for the surplus power. The contract terms obligate the PUDs to deliver power to Avista points of interconnection.

Avista originally entered into long-term contracts for the output of four of these projects "at cost." Avista now competes in capacity auctions to retain the rights of these expiring contracts. The Mid-Columbia contracts in Table 4.3 provide energy, capacity and reserve capabilities; in 2015, the contracts provide approximately 160 MW of capacity and 96 aMW of energy. The Douglas PUD (2018) and Chelan PUD (2020) contracts expire over the next five years. Avista may extend these contracts or even gain additional capacity in auctions; however, there are no guarantees to extend contract rights. Due to this uncertainty around future availability and cost, the IRP does not include these contracts in the resource mix beyond their expiration dates.

The timing of the power received from the Mid-Columbia projects is a result of agreements including the 1961 Columbia River Treaty and the 1964 Pacific Northwest Coordination Agreement (PNCA). Both agreements optimize hydroelectric project operations in the Northwest U.S. and Canada. In return for these benefits, Canada receives return energy under the Canadian Entitlement. The Columbia River Treaty and the PNCA manage storage water in upstream reservoirs for coordinated flood control and power generation optimization. On September 16, 2024, the Columbia River Treaty may end. Studies are underway by U.S. and Canadian entities to determine possible post-2024 Columbia River operations. Federal agencies are soliciting feedback from stakeholders and soon negotiations will begin in earnest to decide whether the current treaty will continue, should be ended, or if a new agreement will be reached. This IRP does not model alternative outcomes for the treaty negotiations, because it will not likely affect long-term resource acquisition and we cannot speculate on future wholesale electricity market impacts of the treaty.

Table 4.3: Mid-Columbia Capacity and Energy Contracts

Counter Party	Project(s)	Percent Share (%)	Start Date	End Date	Estimated On-Peak Capability (MW)	Annual Energy (aMW)
Grant PUD	Priest Rapids	3.7	Dec-2001	Dec-2052	34.8	16.9
Grant PUD	Wanapum	3.7	Dec-2001	Dec-2052	34.5	27.2
Chelan PUD	Rocky Reach	5.0	Jan-2016	Dec-2020	58.1	18.4
Chelan PUD	Rock Island	5.0	Jan- 2016	Dec-2020	20.1	25.7
Douglas PUD	Wells	3.3	Feb-1965	Aug-2018	27.9	16.5
Canadian Entitlement					-10.1	-5.7
2016 Total Net Contracted Capacity and Energy					155.3	99.0

Lancaster Power Purchase Agreement

Avista acquired the output rights to the Lancaster combined-cycle generating station, located in Rathdrum, Idaho, as part of the sale of Avista Energy in 2007. Lancaster directly interconnects with the Avista transmission system at the BPA Lancaster substation. Under the tolling contract, Avista pays a monthly capacity payment for the sole right to dispatch the plant through October 2026. In addition, Avista pays a variable energy charge and arranges for all of the fuel needs of the plant.

Public Utility Regulatory Policies Act (PURPA)

The passage of PURPA by Congress in 1978 required utilities to purchase power from resources meeting certain size and fuel criteria. Avista has entered into many PURPA contracts, as shown in Table 4.4. Avista will renegotiate many of these contracts after the current contracts end.

Table 4.4: PURPA Agreements

Contract	Owner	Fuel Source	Location	End Date	Size (MW)	Annual Energy (aMW)
Meyers Falls	Hydro Technology Systems Inc.	Hydro	Kettle Falls, WA	12/2013	1.30	1.05
Spokane Waste to Energy	City of Spokane	Municipal Waste	Spokane, WA	12/2017	18.00	16.00
Spokane County Digester	Spokane County	Municipal Waste	Spokane, WA	8/2016	0.26	0.14
Plummer Saw Mill	Stimson Lumber	Wood Waste	Plummer, ID	11/2016	5.80	4.00
Deep Creek	Deep Creek Energy	Hydro	Northpoint, WA	12/2016	0.41	0.23
Clark Fork Hydro	Clark Fork LLC.	Hydro	Clark Fork, ID	12/2017	0.22	0.12
Upriver Dam ²	City of Spokane	Hydro	Spokane, WA	12/2019	17.60	6.17
Sheep Creek Hydro	Sheep Creek Hydro Inc.	Hydro	Northpoint, WA	6/2021	1.40	0.79
Ford Hydro LP	Ford Hydro Ltd Partnership	Hydro	Weippe, ID	6/2022	1.41	0.39
John Day Hydro	David Cereghino	Hydro	Lucille, ID	9/2022	0.90	0.25
Phillips Ranch	Glenn Phillips	Hydro	Northpoint, WA	n/a	0.02	0.01
Total					47.32	29.15

Bonneville Power Administration – WNP-3 Settlement

Avista signed settlement agreements with BPA and Energy Northwest on September 17, 1985, ending its nuclear plant construction delay claims against both parties. The settlement provides an energy exchange through June 30, 2019, with an agreement to reimburse Avista for WPPSS – Washington Nuclear Plant No. 3 (WNP-3) preservation costs and an irrevocable offer of WNP-3 capability under the Regional Power Act.

The energy exchange portion of the settlement contains two basic provisions. The first provision provides approximately 42 aMW of energy to Avista from BPA through 2019, subject to a contract minimum of 5.8 million megawatt-hours. Avista is obligated to pay BPA operating and maintenance costs associated with the energy exchange as determined by a formula that ranges from \$16 to \$29 per megawatt-hour in 1987-year constant dollars.

² Energy estimate is net of the city's pumping load.

The second provision provides BPA approximately 32 aMW of return energy at a cost equal to the actual operating cost of Avista's highest-cost resource. A further discussion of this obligation, and how Avista plans to account for it, is contained in Chapter 6.

Palouse Wind – Power Purchase Agreement

Avista signed a 30-year power purchase agreement in 2011 with Palouse Wind for the entire output of its 105-MW project. Avista has the option to purchase the project after 10 years. Commercial operation began in December 2012. The project is EIA qualified and directly connected to Avista's transmission system.

Table 4.5: Other Contractual Rights and Obligations

Contract	Type	Fuel Source	End Date	Winter Capacity (MW)	Summer Capacity (MW)	Annual Energy (aMW)
PGE Capacity Exch.	Exchange	System	12/2016	-150	-150	0
Douglas Settlement	Purchase	Hydro	9/2018	2	2	3
Energy America	Sale	CEC RECs ³	12/2019	50	50	50
WNP-3	Purchase	System	6/2019	82	0	42
Lancaster	Purchase	Natural Gas	10/2026	279	228	215
Palouse Wind	Purchase	Wind	12/2042	0	0	40
Nichols Pumping	Sale	System	n/a	-1	-1	-1
Total				262	129	349

Customer-Owned Generation

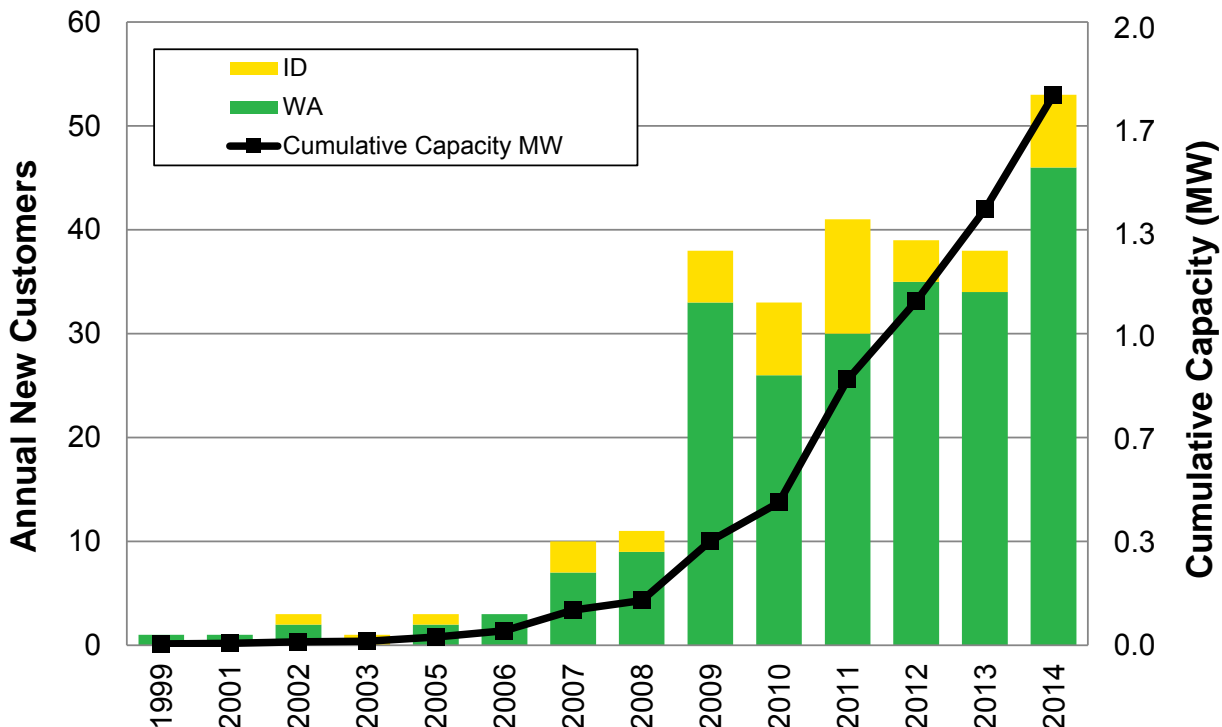
A small but growing number of customers choose to install their own generation systems. In 2007 and 2008, the average number of new net-metering customers added was 10 yearly, and between 2009 and 2014 the average increased to 38 per year. The increase likely was in response to generous federal and new state tax incentives. Certain renewable projects qualify for the federal government's 30 percent tax credit and Washington State tax incentives of up to \$5,000 per year through 2020. The Washington state utility taxes credit finances these incentives that rise to as much as \$1.08 per kWh.

Avista had 208 customer-installed net-metered generation projects on its system at the end of 2014 representing a total installed capacity of 1.8 MW. Eighty-four percent of 2014 installations are in Washington, with most located in Spokane County. In that year, Avista credited customers \$245,884 for the energy created via the Washington state tax incentive—an average of \$281 per MWh. Figure 4.2 shows annual net metering customer additions. Solar is the primary net metered technology; the remaining is a mix of wind, combined solar and wind systems, and biogas. The average annual capacity factor of the solar facilities is 13 percent. Small wind turbines typically produce at less than a 10 percent capacity factor, depending on location. Given current tax incentives are nearing optimal payback, the number of new net-metered systems rose in 2014. If

³ CEC RECs are renewable resources based on approval of the California Energy Commission. Kettle Falls, Palouse Wind, Nine Mile Falls, Post Falls, Monroe Street, and Upper Falls are CEC certified.

tax subsidies end without a significant reduction in technology cost, the interest in net metering likely will return to pre-tax incentive levels. If the number of net-metering customers continues to increase, Avista may need to adjust rate structures for customers who rely on the utility’s infrastructure, but do not contribute financially for infrastructure costs.

Figure 4.2: Avista’s Net Metering Customers



Solar

As solar equipment and installation prices have decreased, the nation’s interest and development has increased dramatically. Avista has three small projects of its own. The first was the installation of three kilowatts on the corporate headquarters as part of the Solar Car initiative. The solar production helped power two electric vehicles in the corporate fleet. Since then, Avista installed a 15-kilowatt solar system in Rathdrum, Idaho to supply Buck-A-Block, a program allowing customers to purchase green energy. The 423-kW Avista Community Solar project, located in Spokane Valley, Washington, entered service in July 2015. The project takes advantage of federal and state subsidies. The \$1,080/MWh Washington State solar subsidy allows customers to purchase individual solar panels within the facility and receive payments that more than offset their upfront investment. Located in Spokane Valley, WA, the program will utilize approximately \$600,000 each year in state tax incentives.



Boulder Park Community Solar Project

5. Energy Efficiency & Demand Response

Introduction

Avista began offering energy efficiency programs to its customers in 1978. Recent programs include the distribution of 2.3 million compact fluorescent lights (CFLs) to residential and commercial customers for an estimated energy savings of 39,005 MWh in the summer of 2011. The Opower Home Energy Report program began sending peer-comparison reports to participating customers every two months beginning in June 2013. Conservation programs regularly meet or exceed regional shares of energy efficiency gains as outlined by the Northwest Power and Conservation Council (NPCC).

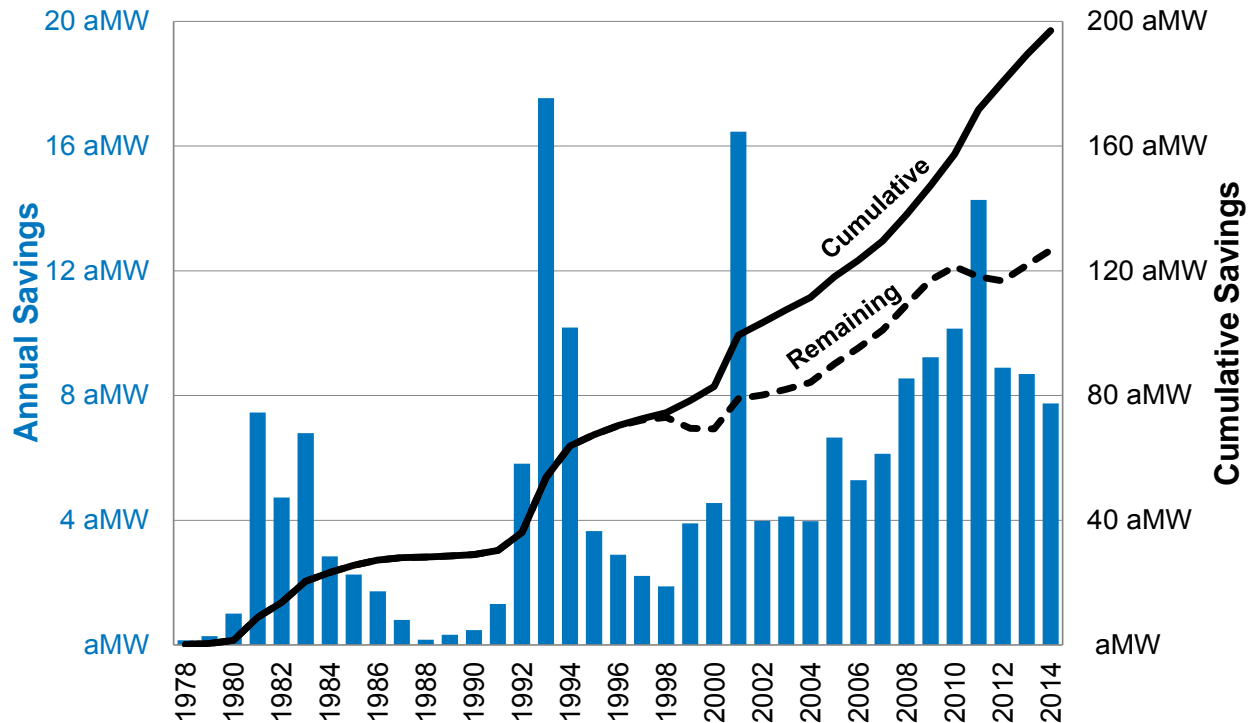
Section Highlights

- Current Avista-sponsored conservation reduces retail loads by nearly 11 percent, or 127 aMW.
- This IRP evaluated over 3,000 equipment options, and over 2,300 measure options covering all major end use equipment, as well as devices and actions to reduce energy consumption for this IRP.
- This IRP co-optimizes conservation and demand response selection with generation resource options using our PRiSM model.

Figure 5.1 illustrates Avista’s historical electricity conservation acquisitions. Avista has acquired 197 aMW of energy efficiency since 1978; however, the 18-year average measure life of the conservation portfolio means some measures are no longer reducing load. The 18-year assumed measure life accounts for the difference between the cumulative and online trajectories in Figure 5.1. Currently 127 aMW of conservation serves customers today; conservation serves nearly 11 percent of load.

Avista’s energy efficiency programs provide conservation and education options to the residential, low income, commercial, and industrial customer segments. Program delivery includes prescriptive, site-specific, regional, upstream, behavioral, market transformation, and third-party direct install options. Prescriptive programs, or standard offerings, provide cash incentives for standardized products such as the installation of qualifying high-efficiency heating equipment. Prescriptive programs work in situations where uniform products or offerings are applicable for large groups of homogeneous customers and primarily occur in programs for residential and small commercial customers. Site-specific programs, or customized offerings, provide cash incentives for any cost-effective energy saving measure or equipment with an economic payback greater than one year and less than eight years for non-LED lighting projects, or less than 13 years for all other end uses and technologies. Other delivery methods build off these approaches but may include upstream buy downs of low cost measures, free-to-customer direct install programs and coordination with regional entities for market transformation efforts.

Figure 5.1: Historical and Forecast Conservation Acquisition (system)



Efficiency programs with economic paybacks of less than one year are not eligible for incentives, although Avista assists in educating and informing customers about these types of efficiency measures. Site-specific programs require customized services for commercial and industrial customers because of the unique characteristics of each of their premises and processes. In some cases, Avista uses a prescriptive approach where similar applications of energy efficiency measures result in reasonably consistent savings estimates in conjunction with a high achievable savings potential. An example is prescriptive lighting for commercial and industrial applications.

The Conservation Potential Assessment

Avista retained Applied Energy Group (AEG) to develop an independent Conservation Potential Assessment (CPA) for this IRP. The study forms the basis for the conservation portion of this plan. The CPA identifies the 20-year potential for energy efficiency and provides data on resources specific to Avista’s service territory for use in the resource selection process, in accordance with the EIA’s energy efficiency goals. The energy efficiency potential considers the impacts of existing programs, the influence of known building codes and standards, technology developments and innovations, changes to the economic influences and energy prices.

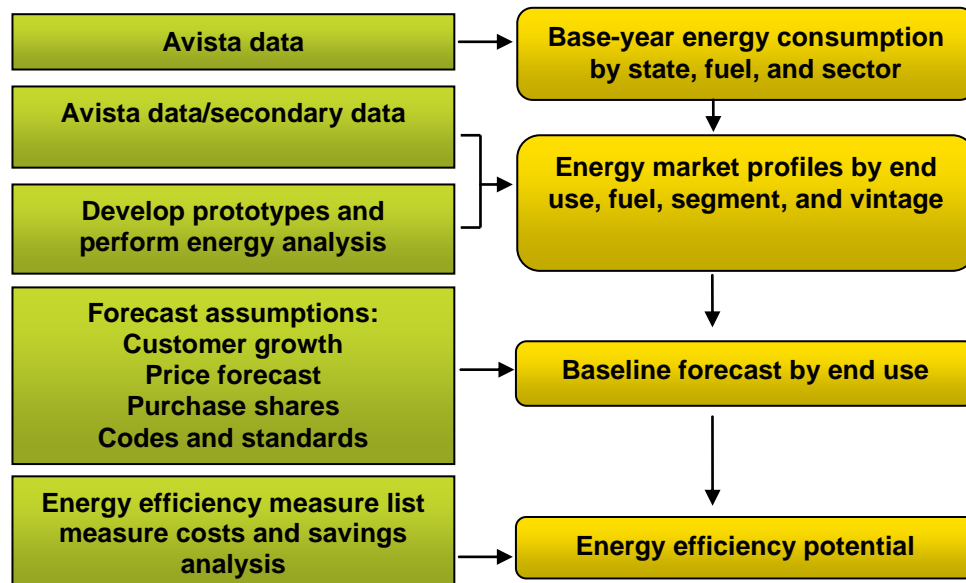
AEG took the following steps to assess and analyze energy efficiency and potential within Avista’s service territory. Figure 5.2 illustrates the steps of the analysis.

1. **Market Assessment:** Categorizes energy consumption in the residential (including low-income customers), commercial, and industrial sectors. This assessment uses utility and secondary data to characterize customers’ electricity usage behavior in

Avista’s service territory. AEG uses this assessment to develop energy market profiles describing energy consumption by market segment, vintage (existing or new construction), end use, and technology.

2. **Baseline Projection:** Develops a projection of energy and demand for electricity, absent the effects of future conservation by sector and by end use for the entire 20-year study.
3. **Measure Assessment:** Identifies and characterizes energy-efficiency measures appropriate for Avista, including regional savings from energy efficiency measures acquired through Northwest Energy Efficiency Alliance efforts.
4. **Potential:** Analyzes measures to identify technical, economic and achievable conservation potential. Technical potential is a theoretical upper bound that chooses the most energy-efficient measure, ignoring cost constraints. Economic potential chooses the most efficient cost-effective measure that passes the total resource cost (TRC) test. Achievable potential adjusts economic potential to account for customer awareness of efficiency options, barriers to customer adoption, program design limits, and other factors that influence the rate at which energy efficiency measures penetrate the market.

Figure 5.2: Analysis Approach Overview



Market Segmentation

The CPA segments Avista customers by state and segment. The residential class segments include single-family, multi-family, manufactured home and low-income customers. The low-income threshold for this study is 200 percent of the federal poverty level.¹ For the CPA, AEG incorporated information from the Commercial Building Stock Assessment to break out the commercial sector by building type. Avista analyzed the industrial sector as a whole for each state. AEG characterized energy use by end use within each segment in each sector, including space heating, cooling, lighting, water heat or motors; and by technology, including heat pump and resistance-electric space heating.

The baseline projection is the “business as usual” metric without future utility conservation programs. It estimates annual electricity consumption and peak demand by customer segment and end use absent future efficiency programs. The baseline projection includes projected impacts of known building codes and energy efficiency standards as of 2013 when the study began. Codes and standards have direct bearing on the amount of energy efficiency potential that exists beyond the impact of these efforts. The baseline projection accounts for market changes including:

- customer and market growth;
- income growth;
- retail rates forecasts;
- trends in end use and technology saturations;
- equipment purchase decisions;
- consumer price elasticity;
- income; and
- persons per household.

For each customer segment, AEG compiled a list of electrical energy efficiency measures and equipment, drawing from the NPCC’s Sixth Power Plan, the Regional Technical Forum, and other measures applicable to Avista. The approximately 6,000 individual measures included in the CPA represent a wide variety of end use applications, as well as devices and actions able to reduce customer energy consumption. The CPA includes measure costs, savings, estimated useful life, and other performance factors identified for the list of measures and economic screening performed on each measure for every year of the study to develop the economic potential of Avista’s service territory. Many measures initially do not pass the economic screen of supply side resource options, but some measures may become part of the energy efficiency program as contributing factors evolve during the 20-year planning horizon.

Avista supplements energy efficiency activities by including potentials for distribution efficiency measures consistent with EIA conservation targets and the NPCC Sixth

¹ Low-income information is available from census data and the American Community Survey data.

Power Plan. Details about the distribution efficiency projects are in Chapter 8 – Transmission and Distribution Planning.

Overview of Energy Efficiency Potential

AEG’s approach adhered to the conventions outlined in the National Action Plan for Energy Efficiency Guide for Conducting Potential Studies.² The guide represents the most credible and comprehensive national industry standard practice for specifying energy efficiency potential. Specifically, three types of potential are in this study, as discussed below. Table 5.1 shows the CPA results for technical, economic, and achievable potential.

Table 5.1: Cumulative Potential Savings (Across All Sectors for Selected Years)

	2016	2017	2020	2025	2035
Cumulative (GWh)					
Achievable Potential	34.1	74.3	236.2	574.5	124.5
Economic Potential	67.7	138.6	359.8	733.1	147.5
Technical Potential	172.7	344.3	836.6	1,581.5	2,505.8
Cumulative (aMW)					
Achievable Potential	3.9	8.5	27.0	65.6	124.5
Economic Potential	7.7	15.8	41.1	83.7	147.5
Technical Potential	19.7	39.3	95.5	180.5	286.1

Technical Potential

Technical conservation potential uses the most efficient option commercially available for each purchase decision, regardless of cost. This theoretical case provides the broadest and highest definition of savings potential because it quantifies savings that would result if all current equipment, processes, and practices, in all market sectors, were replaced by the most efficient and feasible technology. Technical potential in the CPA is a “phased-in technical potential,” meaning the only considered portion of current equipment stock is that reaching the end of its useful life and changed out with the most efficient measures available. Non-equipment measures, such as controls and other devices (e.g., programmable thermostats) phase-in over time, just like the equipment measures.

Economic Potential

Economic conservation potential includes the purchase of the most efficient cost-effective option available for each given equipment or non-equipment measure.³ Cost effectiveness is determined by applying the Total Resource Cost (TRC) test using all quantifiable costs and benefits, regardless of who accrues them, and inclusive of non-energy benefits as identified by the NPCC.⁴ Measures passing the

² National Action Plan for Energy Efficiency (2007). *National Action Plan for Energy Efficiency Vision for 2025: Developing a Framework for Change*. www.epa.gov/eeactionplan.

³ The industry definition of economic potential and the definition of economic potential referred to in this document are consistent with the definition of “realizable potential for all realistically achievable units”.

⁴ There are other tests to represent economic potential from the perspective of stakeholders (e.g., Participant or Utility Cost), but the TRC is generally accepted as the most appropriate representation of

economic screen represent aggregate economic potential. As with technical potential, economic potential calculations use a phased-in approach. Economic potential is a hypothetical upper-boundary of savings potential representing only economic measures; it does not consider customer acceptance and other factors.

Achievable Potential

Achievable conservation potential refines economic potential by taking into account expected program participation, customer preferences, and budget constraints. This level of potential estimates the achievable savings that could be attained through Avista energy efficiency programs when considering market maturity and barriers, customer willingness to adopt new technologies, incentive levels, as well as whether the program is mature or represents the addition of a new program. During this stage, AEG applied market acceptance rates based upon NPCC-defined ramp rates from the Sixth Power Plan, taking into account market barriers and measure lives. However, AEG adjusted the ramp rates for the measures and equipment to reflect Avista's market-specific conditions and program history. In some cases Avista ramp rates exceed the NPCC's, illustrating a mature energy efficiency program reaching a greater percentage of the market than estimated by the now five year-old Sixth Power Plan. In other cases, where a program does not currently exist, a ramp rate could be less than the NPCC's ramp rate, acknowledging the additional design and implementation time necessary to launch a new program. Other examples of ramp rate changes include measures or equipment where the regional market shows lower adoption rates than historically estimated by the NPCC, such as heat pump water heaters. AEG's CPA forecasts incremental annual achievable potential for all sectors at 3.9 aMW (34,106 MWh) in 2016, increasing to cumulative savings of 124.5 aMW through 2035.

PRiSM Co-Optimization

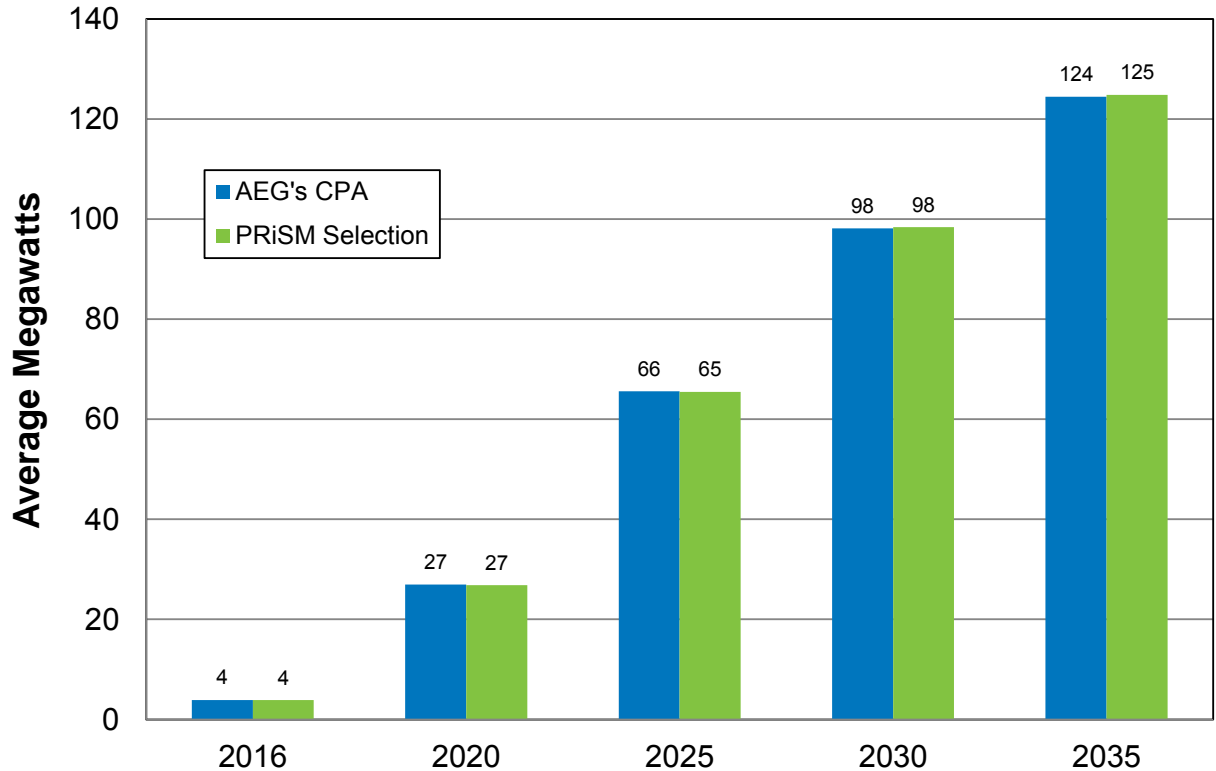
For the first time, this IRP used a second methodology to select conservation. This method selects conservation measures concurrently with supply side resources in Avista's PRiSM model. This methodology was the result of the 2013 Action Item to streamline the process of selecting conservation in conjunction with the efficient frontier modeling process. See Chapter 11 for more details about the PRiSM model. This method inputs all measures with TRC's less than 130 percent of the avoided cost rate, adjusted for ramp rates used for achievable potential. This larger set of conservation resources competes with supply- and demand-side options meeting Avista's resource deficits. The model considers each program's winter and summer peak contribution, plus the value of its energy savings.

Given the change to evaluating conservation directly in PRiSM for this IRP, it is important to compare it to the historical method to see if it is a viable methodology to use in future IRPs. Figure 5.3 shows both CPA and PRiSM conservation estimates. The results were very similar, with PRiSM selected 0.4 aMW more conservation than the CPA over the 20-year horizon. The similarities between the figures shows the avoided cost method used in previous IRP's was accurate. However, using PRiSM for program

economic potential because it tends to represent the net benefits of energy efficiency to society. The economic screen uses the TRC as a proxy for moving forward and representing achievable energy efficiency savings potential for measures that are most cost-effective.

selection allows conservation selections to change with differing resource strategies.⁵ Previously a change in resource selection required a feedback loop with AEG to re-run the CPA with new avoided costs. With the new approach, no feedback loop is required. Given the results of this methodology, Avista will likely use this method in future IRPs for conservation selection.

Figure 5.3: Cumulative Conservation Potentials CPA versus PRiSM



Conservation Targets

The IRP process provides conservation targets for the EIA Biennial Conservation Plan. Other components, such as conservation from distribution and transmission efficiency improvements, combine with energy efficiency targets to arrive at the full Biennial Conservation Plan target for Washington. Table 5.2 contains Avista’s achievable potential for 2016-17 using both the AEG and PRiSM methodologies. Also included are the energy savings expected from the 2016 and 2017 feeder upgrade projects (more information is available in Chapter 8 – Transmission and Distribution Planning).

⁵ For example, pursuing a least-cost strategy might have less conservation resource than pursuing a least-cost strategy where more costly supply-side resources are being avoided through conservation.

Table 5.2: Annual Achievable Potential Energy Efficiency (Megawatt Hours)

Year	Methodology	Washington	Idaho
2016	AEG CPA	22,863	11,243
2016	PRiSM Selection	22,747	11,213
2017	AEG CPA	26,930	13,217
2017	PRiSM Selection	26,799	13,186
2016	WA Feeder Upgrades	485	1,118
2017	WA Feeder Upgrades	0	0
2016	Facility Efficiencies	TBD	TBD
2017	Facility Efficiencies	TBD	TBD

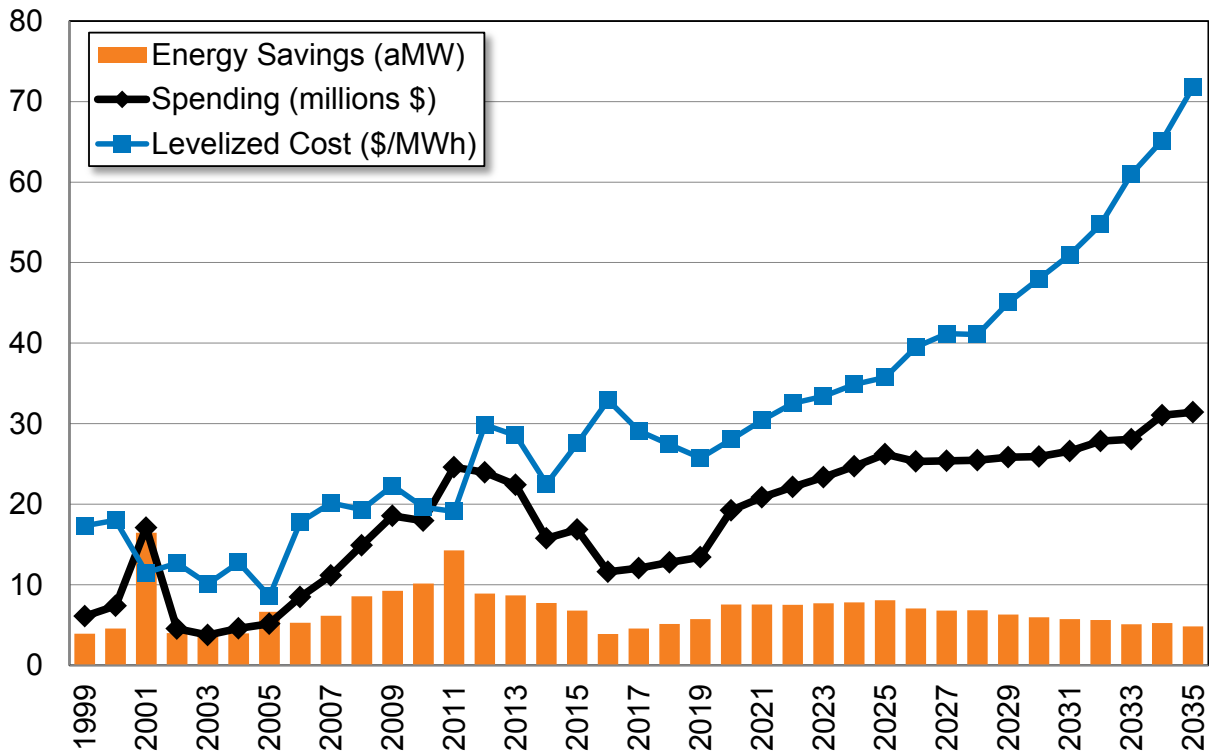
Energy Efficiency-Related Financial Impacts

The EIA requires utilities with over 25,000 customers to obtain a fixed percentage of their electricity from qualifying renewable resources and to acquire all cost-effective and achievable energy conservation.⁶ For the first 24-month period under the law (2010-11), this equaled a ramped-in share of the regional 10-year conservation target identified in the Sixth Power Plan. Penalties of at least \$50 per MWh exist for utilities not achieving Washington EIA targets.

The EIA requirement to acquire all cost-effective and achievable conservation may pose significant financial implications for Washington customers. Based on the CPA results, the projected 2016 cost to electric customers is \$11.6 million. This annual amount grows to \$26 million by the tenth year, representing a total of \$186 million over this 10-year period for retail customers. Figure 5.4 shows the annual cost in millions of nominal dollars for the utility to acquire the projected electric achievable potential.

⁶ The EIA defines cost effective as 10 percent higher than the cost a utility would otherwise spend on energy acquisition.

Figure 5.4: Existing & Future Energy Efficiency Costs and Energy Savings



Integrating Results into Business Planning and Operations

The CPA and IRP energy efficiency evaluation processes provide high-level estimates of the cost-effectiveness of conservation acquisition opportunities. Results establish baseline goals for continued development and enhancement of energy efficiency programs, but the results are not detailed enough to form an actionable plan. Avista uses both processes' results to establish a budget for energy efficiency measures, help determine the size and skill sets necessary for future operations, and identify general target markets for energy efficiency programs. This section provides an overview of recent operations of the individual sectors as well as energy efficiency business planning.

The CPA is useful for implementing energy efficiency programs in the following ways.

- Identifying conservation resource potentials by sector, segment, end use and measure of where energy savings may come from. Energy efficiency staff can use CPA results to determine the segments and end uses/measures to target.
- Identifying measures with the highest TRC benefit-cost ratios, resulting in the lowest cost resources, brings the greatest amount of benefits to the overall portfolio.
- Identifying measures with great adoption barriers based on the economic versus achievable results by measure. With this information, staff can develop effective programs for measures with slow adoption or significant barriers.
- Improving the design of current program offerings. Staff can review the measure level results by sector and compare the savings with the largest-saving measures

currently offered. This analysis may lead to the addition or elimination of programs. Additional consideration for lost opportunities can lead to offering greater incentives on measures with higher benefits and lower incentives on measures with lower benefits.

The CPA illustrates potential markets and provides a list of cost-effective measures to analyze through the on-going energy efficiency business planning process. This review of both residential and non-residential program concepts, and their sensitivity to more detailed assumptions, feeds into program plans for target markets.

Residential Sector Overview

Avista offers most residential energy efficiency programs through prescriptive or standard offer programs targeting a range of end uses. Programs offered through this prescriptive approach during 2014 included space and water heating conversions, ENERGY STAR® homes, space and water equipment upgrades and home weatherization. The ENERGY STAR® appliance program phased out in 2013 due to results of a Cadmus net-to-gross study indicating market transformation to a point that incentives are no longer required.

Avista offers its remaining residential energy efficiency programs through other channels. For example, JACO, a third party administrator, operates a refrigerator/freezer recycling program. UCONS administers a manufactured home duct-sealing program. CFL buy-downs at the manufacturer level provide customers access to lower-priced lamps. Home energy audits, subsidized by a grant from the American Recovery and Reinvestment Act (ARRA), ended in 2012. This program offered home inspections including numerous diagnostic tests and provided a leave-behind kit containing CFLs and weatherization materials. ARRA funds also helped support another program aimed at helping to remove the financial roadblocks to implementing energy efficiency for customers. This program used ARRA funds to buy down the interest rate on loans geared directly towards installing energy efficiency measures in the home. This loan program ended December 31, 2014 after helping fund 269 projects.

Avista processed 5,300 residential energy efficiency rebates in 2014, benefiting approximately 4,000 households. Rebates of over \$2.3 million offset customer conservation-implementation costs. Third-party contractors implemented a second appliance-recycling program and a manufactured home duct-sealing program. Avista participated in a regional upstream buy-down program called Simple Steps Smart Savings to provide customers reduced cost lighting and showerheads through participating retailers. Finally, Avista distributed over 7,700 CFLs, and provided expert advice, at various community events throughout the service territory. Residential programs contributed 25,397 MWh and 355,443 therms of energy savings in 2014.

Avista successfully launched a three-year cost effective behavioral program in June 2013 using the Opower Home Energy Report (HER) platform, where participating customers receive a peer-comparison report in the mail every two months. Since the launch of the HER program, Avista has seen a higher than expected ramp rate of energy savings for participating customers as measured in the statistically valid

Randomized Control Trial method. Uptake in other energy efficiency programs increased as well. The Opower Home Energy Report contributed 8,131 MWh of savings in 2014.

Low Income Sector Overview

During 2014, six community action agencies administered Avista low-income programs, targeting a range of end-uses including space and water heating conversions, ENERGY STAR® refrigerators, and weatherization improvements. Beyond direct energy efficiency measures, Avista funding goes towards health and safety improvements considered necessary to ensure the habitability of low-income homes and protect the efficiency measures. The funding also allows the Agencies to receive an administration fee for program delivery.

In 2014, Washington agencies had \$2.0 million available for energy efficiency improvements. In Idaho, \$700,000 was available for improvements as well as an additional \$50,000 for conservation education. Avista processed approximately 1,400 rebates, benefitting 360 households. During 2014, Avista reimbursed the Agencies over \$2.6 million for energy efficiency upgrades where some measures were fully subsidized and others capped based on avoided costs. The agencies spent nearly \$394,000 on health and human safety or 13 percent of their total expenditures and within their 15 percent allowance for this spending category. The low-income energy efficiency programs contributed 400 MWh of electricity savings and 14,944 therms of natural gas savings in 2014.

Non-Residential Sector Overview

The development of target marketing and the creation of new energy efficiency programs start with measures highlighted by the CPA. All electric-efficiency measures with a simple payback exceeding one year and less than eight years for lighting measures or thirteen years for other measures automatically qualify for the non-residential portfolio. The IRP provides account executives, program managers/coordinators and energy efficiency engineers with valuable information regarding potentially cost-effective target markets. However, the unique and specific characteristics of a customer's facility override any high-level program prioritization for non-residential customers.

For the non-residential sectors (commercial, industrial and multi-family applications), energy efficiency programs are offered on a site-specific or custom basis. Avista offers a more prescriptive approach when treatments result in similar savings and the technical potential is high. An example is the prescriptive lighting program. The applications are not purely prescriptive in the traditional sense, such as with residential applications where homogenous programs are provided for all residential customers; however, a more prescriptive approach can be applied for these similar applications.

Non-residential prescriptive programs offered by Avista include, but are not limited to, space and water heating conversions, space and water heating equipment upgrades, appliance upgrades, cooking equipment upgrades, personal computer network controls, commercial clothes washers, lighting, motors, refrigerated warehouses, traffic signals, and vending controls. Also included are residential program offerings such as multi-

family and multi-family market transformation since these project implementations are site-specific unlike other residential programs.

Avista processed 1,100 energy efficiency projects resulting in the payment of over \$4.6 million in rebates paid directly to non-residential customers to offset the cost of their energy efficiency projects in 2014. These projects contributed 24,400 MWh of electricity and 262,000 therms of natural gas savings.

PECI's Energy Smart Grocer is a regional turnkey program administrated has been operating for several years in the Avista service territory and will approach saturation levels during the early part of the IRP 20-year planning horizon.

After years of review, Avista plans to begin converting a large portion of its high-pressure sodium (HPS) street light system to LED units starting in 2015. Advancements in LED technology and lower product costs make early replacements cost effective. LEDs consume about half of the energy as their conventional counterparts for the same light output. Other non-energy benefits include improved visibility due to LED white light rendering colors better than conventional HPS lighting, and longer product life. The initial focus will be on replacing 26,000 100-watt cobra-head style streetlights. Future studies will evaluate the conversion of decorative lights and larger wattage (200 watt and 400 watt) streetlights.

Demand Response

Over the past decade, demand response (DR) gained growing attention as an alternative for meeting peak load growth. Demand response reduces load to specific customers during peak demand periods. Customers typically enroll in programs allowing the utility to change their usage pattern in exchange for bill discounts. National attention focuses on residential programs to control water heaters, space heating and air conditioners. A 2013 Action Item suggested further study of the DR potential based on its selection as a PRS resource from 2022 to 2027 in that plan. Avista retained AEG to study the potential of future commercial and industrial programs.

Past Programs

Avista's experience with DR dates back to the 2001 Energy Crisis. Avista responded with an all-customer buy-back program, an irrigation buy-back program and bi-lateral agreements with its largest industrial customers. These programs, along with enhanced commercial and residential energy efficiency programs, reduced the need for purchases in very high-cost wholesale electricity markets. A July 2006 multi-day heat wave again led Avista to rely on DR through a media request for customers to conserve, and short-term agreements with its largest industrial customers. During the 2006 event, Avista estimates DR reduced loads by an estimated 50 MW.

Avista conducted a two-year residential load control pilot between 2007 and 2009 to study specific technologies, examine cost-effectiveness and customer acceptance. The intent of this pilot was to test scalable Direct Load Control (DLC) devices based on an installation in approximately 100 volunteer households in Sandpoint and Moscow, Idaho. This small sample allowed Avista to test the product and systems with the same

benefits as if this were a larger scale project, but in a controlled and customer-friendly manner. Avista installed DLC devices on heat pumps, water heaters, electric forced-air furnaces and air conditioners to control operation during 10 scheduled events at peak times ranging from two to four hours. A separate group within those communities participated in an In-Home-Display device study as part of this pilot. The program intended to gain customer experience with “near-real time” energy-usage feedback equipment. Information gained from the pilot is in the report filed with the Idaho Public Utilities Commission (IPUC).

Avista was engaged in a DR program as part of the Northwest Regional Smart Grid Demonstration Project (SGDP) with Washington State University (WSU) and approximately 70 residential customers in the Pullman and Albion, Washington communities. Residential customer assets including forced-air electric furnaces, heat pumps, and central air-conditioning units were enabled with control technology of a Smart Communicating Thermostat provided and installed by Avista. The control approach was non-traditional in several ways. First, the DR events were not prescheduled, but Avista controlled customer loads defined by pre-defined customer preferences (no more than a two degree offset for residential customers and an energy management system at WSU with a console operator). More importantly, the technology used in the DR portion of the SGDP predicted if equipment was available for participation in the control event. Lastly, value quantification extended beyond demand and energy savings and explored bill management options for customers with whole house usage data analyzed in conjunction with smart thermostat data. Inefficient homes identified through this analysis prompted customer engagement. For example, an operational anomaly prompted an investigation that uncovered a control board in the heat pump that caused the system to draw warm air from inside the home during the heating season. This in turn caused the auxiliary heat to come on prematurely and too often, resulting in high energy costs for the customer. The repair not only saved the customer money but also allowed them to be more comfortable in their home. Lessons learned from the STP program helped craft Avista’s new Smart Thermostat rebate program (an efficiency-only program) implemented in October 2014. The Smart Grid demonstration project concluded December 31, 2014.

Experiences from both residential DLC pilots (North Idaho Pilot and the SGDP) show participating customer engagement is high; however, recruiting participants is challenging. Avista’s service territory has high natural gas penetration for typical DLC space and water heat applications. Customers who have interest may not have qualifying equipment making them ineligible for participation in the program. Secondly, customers did not seem overly interested in the DLC program offerings. BPA has found similar challenges in gaining customers interest in their recent regional DLC programs. Finally, Avista is unable at this time to offer pricing strategies other than direct incentives to compensate customers for participation in the program, which might limit customer interest.

Demand Response Potential Assessment Study

Avista retained AEG to study the potential for commercial and industrial DR in Avista’s service territory for the 20-year planning horizon of 2016–2035. It primarily sought to develop reliable estimates of the magnitude, timing, and costs of DR resources likely

available to Avista for meeting winter peak loads. The study focuses on resources assumed achievable during the planning horizon, recognizing known market dynamics that may hinder acquisition.

The IRP incorporates DR study results, and the study will affect subsequent DR planning and program development efforts. A full report outlining the DR potential for commercial and industrial customers is in Appendix X. Table 5.3 details potential for the programs studied by AEG, and their nominal levelized costs over a 20-year program life. Levelized costs are lower than actual costs due to the ramp rate of program savings. For example, it may take five years to reach the potential savings to meet a targeted utility resource shortfall, therefore the program must begin sooner to ensure the full resource potential is achieved before the need occurs. This early adoption leads to higher per-kW costs being borne up front by the program.

Table 5.3: Commercial and Industrial Demand Response Achievable Potential (MW)

Program	2016	2020	2025	2030	2035	\$/kW-yr
Direct Load Control	0.6	6.5	6.7	6.9	7.2	138
Firm Curtailment	5.8	17.5	17.4	17.4	17.5	131
Opt-in Critical Peak Pricing	0.1	1.4	4.3	4.3	4.4	307
Opt-out Critical Peak Pricing	6.3	4.4	12.9	13.0	13.1	108

Direct Load Control

A DLC program would target Avista’s General Service and Large General Service customers in Washington and Idaho. The program would directly control electric space heating load in winter and water heating load throughout the year through a load control switch or a programmable thermostat. The two types of space heating equipment to be controlled are central electric furnaces and heat pumps. Central electric furnaces, heat pumps and water heaters would cycle on and off during high-load events. Avista could offer this program beginning in 2016. Typically, a DLC program takes five years to ramp up to maximum participation levels.

Firm Curtailment

Under this program, participating customers agree to reduce demand by a specific amount, or curtail their consumption to a pre-specified level. In return, they receive a fixed incentive payment in the form of capacity credits or reservation payments (typically expressed as \$/kW-month or \$/kW-year). Customers receive payments to be on-call even though actual load curtailments might or might not occur. The capacity payment typically varies with the firm reliability-commitment level. In addition to fixed capacity payments, participants receive a payment for energy savings. Because the program includes a contractual agreement for a specific level of load reduction, enrolled loads represent a firm resource and can count toward installed capacity (ICAP) requirements. Penalties may occur for under-performance or non-performance.

Industry experiences indicate customers with loads greater than 200 kW participate in this type of program. However, there are a few programs where customers with 100-kW maximum demand participate. In Avista's case, the study lowered the demand threshold level to include Large General Service customers with an average demand of 100 kW.

Avista could offer this program beginning in 2016 to eligible customers in Washington and Idaho. Customers with flexibility in their operations are attractive candidates for participation. Examples of customer segments with high participation possibilities include large retail establishments, grocery chains, large offices, refrigerated warehouses, water- and wastewater-treatment plants, and industries with process storage (e.g. pulp and paper, cement manufacturing). Customers with 24x7 operations/continuous processes or with obligations to continue providing service (such as schools and hospitals) are not often good candidates for this option.

Firm curtailment programs typically come from third parties who are responsible for all aspects of program implementation, including program marketing and outreach, customer recruitment, technology installation and incentive payments. Avista could enter into a contract with a third party to deliver a fixed amount of capacity reduction over a certain specified timeframe. The contracted capacity reduction and the actual energy reduction during DR events is the basis of payment to the third party.

Critical Peak Pricing

Critical peak pricing programs set prices much higher during relatively short critical peak periods to encourage customers to reduce usage at such times. Critical peak pricing is usually offered in conjunction with a time-of-use rate, implying at least three periods: critical peak, on-peak and off-peak. The customer incentive under Critical peak pricing is a heavily discounted rate during off-peak hours throughout the year, even relative to a standard time-of-use rate. Event days generally are a day ahead or even during the event day. Over time, establishment of event-trigger criteria enable customers to anticipate events based on hot weather or other factors. System contingencies and emergencies are candidates for Critical peak pricing. Critical peak pricing peak to off-peak rate in the AEG study is 6:1, and available to all three commercial and industrial classes.

There are two types of offers for Critical peak pricing. With an opt-in rate, participants voluntarily enroll in the rate. With an opt-out rate, all customers are on the time-varying rate but may opt-out and select another rate if they choose.

Studies have shown that impacts from a dynamic pricing program such as Critical peak pricing vary according to whether customers have enabling technology to automate their response. For General Service and Large General Service customers, the enabling technology is a programmable communicating thermostat. For Extra Large General Service customers, the enabling technology is automated demand response implemented through energy management and control systems.

Critical peak pricing rate programs require formal rate design based on customer billing data to specify peak and off-peak price levels and periods the rates are available. Rate

design was outside the scope of the AEG study. Further, new metering technology is required. Given these requirements, Critical peak pricing was not an option for the IRP.

Standby Generation Partnership

Few utilities have contracted with large industrial customers to use their standby generation resources during peak hours. The AEG DR study included standby generation in its Firm Curtailment section. Avista studied a standby generation option similar to the Portland General Electric program. This program contracts with existing customers to use their standby generation. It dispatches, tests, and maintains the customer generation resources in exchange for their use during peak hours. Portland General Electric uses the generator for limited hours for peak requirements, operating reserves, and potentially for voltage support on certain distribution feeders.

Environmental regulations limit the power to grid use of backup generation facilities unless they meet strict emission guidelines. An Avista program may introduce natural gas blending to improve the emissions and operating costs.

Avista estimates approximately 20 MW of standby generation resources are available for utility use over a 5-year period. To test the concept, a pilot using Avista backup generation facilities is likely. This pilot would provide a cost estimate and illustrate the engineering necessary to bring a standby generation program to fruition. The IRP assumes a standby generation program would cost between \$50 to \$85 per kW in upfront investments, plus \$10-\$15 per kW-year in O&M costs.

At the time of writing this report, the federal courts overturned rules affecting the availability of standby generation resources. This ruling creates uncertainty around the viability of standby generation to serve utility requirements. The ruling requires new rules to be developed to determine the amount of hours and environmental conditions these units could be used.

Generation Efficiency Audits of Avista Facilities

An Action Item for the 2013 IRP was to study the potential for energy efficiency opportunities at the company's generation facilities. Avista's Demand Side Management Engineers performed energy efficiency audits at all of Avista's hydroelectric dams and most of the thermal generation facilities that Avista wholly owns or is a partial owner, excluding Colstrip. The scoping audits focused on lighting, shell, heating ventilation and air conditioning (HVAC), and motor controls on processes. Table 5.4 summarizes these potential projects and Appendix X contains a complete description of the study findings. A summary of the types of potential projects follows.

Lighting Projects

Avista's generation facilities have a mixture of T12, T8 and some T5 linear fluorescent fixtures as well as many incandescent bulbs. The proposed replacement fixtures from the lighting audits are primarily linear, high bay and screw in LED fixtures. Noxon Rapids is the only facility that has currently completed a lighting retrofit.

Shell Projects

Building shells include measures to keep heat or cool air within facility buildings. The review of the company's facilities found no capital shell measures due to negligible savings, high measure costs due to the size of the facilities and large internal heat gain of the equipment in the facilities. However, small maintenance weatherization suggestions could improve occupant comfort. In every hydroelectric facility, except

HVAC Projects

Noxon Rapids is the only company owned hydroelectric project with a heating and cooling equipment. This project employs a water source heat pump paired with air handlers and hydronic unit heaters. To increase its efficiency it would require replacement due age and excessive annual maintenance.

Cabinet Gorge does not have active heating or cooling. The facility is ducted with hydronic coils in the ductwork flush outside air during spring and summer at night. To add heating and cooling a water source heat pump could be installed and piped to the existing coils.

In most cases waste heat from the hydroelectric generating equipment provide heating to facilities in winter months. For units not operating frequently, facilities typically motor a unit during the winter months to keep the facility above freezing. For these facilities if economic, unit heaters could provide heat and the control room should be thermally isolated from the rest of the plant with a dedicated HVAC system.

For the thermal generating facilities, there are no recommendations to replace the current HVAC equipment but rather recommendations for more efficient equipment when each unit reaches the end of its useful life.

Controls on Process Motors

Most of the motor loads at the hydroelectric facilities have very low operating hours, often less than 30 per year, and therefore, do not consume enough electricity to justify the cost of installing variable speed drives. These motors drive sump pumps used to evacuate water from penstocks and scroll cases, for maintenance or to operate spill gates. However, Coyote Springs 2 has some attractive projects associated with their compressed air systems as well as outfitting the exhaust fans at Little Falls Dam with variable speed drives.

Table 5.4: Generation Facility Efficiency Upgrade Potential

Facility	Description	Measure Life (years)	Electric Savings (kWh)
Boulder Park	Control Room Lighting	15	3,931
	Generating Floor Lighting High Bays	15	16,099
	Replacing Engine Bay Lights	15	6,736
	Replace Exterior Wall Packs	15	16,054
	Instrument Air Cycling Air-Dryers	12	10,074
	Oil reservoir heaters fuel conversion ⁷	15	525,600
Cabinet Gorge	Lighting Retrofit (Savings estimated)	15	300,000
Coyote Springs	Control Room Lighting	15	6,368
	Generating Floor Lighting High Bays	15	85,778
	Roadway Lighting	15	1,085
	Air-Compressor VFD	12	130,000
	Retrofit Air-Dryer with Dew-Point Controls	12	25,000
Kettle Falls	Plant Lighting	15	150,190
	Plant Lighting Controls	15	183,058
	Yard Lighting	15	48,180
	Forced Draft Boiler Fan VSD	12	700,000
Little Falls	Lighting Retrofit (Currently Under Construction)	15	TBD
	Speed Controls Cooling/Exhaust Fans	12	247,909
Long Lake	Generating Floor High Bays	15	17,441
	Exterior Wall Packs	15	2,084
	Variable Speed Stator Cooling Blowers	12	135,000
Nine Mile	Lighting Retrofit (Currently Under Construction)	15	TBD
Northeast CT	Halogen Pole Lights	15	5,146
Noxon Rapids	Full LED Lighting Upgrade (Completed)	15	382,115
Post Falls	Control Room T12s	15	1,776
	Generating Floor HPS	15	3,312
Upper Falls	Utility Men Break Room Lighting	15	2,151
	Control Room Lighting	15	4,340
	Network Feeder Tunnel Lighting	15	8,344
Rathdrum CT	Roadway Lighting	15	16,273
	Halogen Pole Lights	15	3,200

⁷ Also saves 23,911 therms of natural gas per year.

6. Long-Term Position

Introduction & Highlights

This chapter describes the analytical framework used to develop Avista's net load and resource position. It describes the reserve margins held to meet peak loads, the risk planning metrics used to meet hydroelectric variability, and the plans to meet renewable goals set by Washington's Energy Independence Act.

Avista has some unique attributes as a utility affecting its ability to meet peak load requirements. It connects to several neighboring utility systems, but is a small part of the overall Northwest system, at five percent of regional load. Annual peaks can occur either in the winter or in the summer; but, on a planning basis, Avista is winter peaking. The winter peak generally occurs in December or January, but may happen in November or February. As described in Chapter 4 – Existing Resources, Avista's resource mix contains roughly equal splits between hydroelectric and thermal generation. Hydroelectric resources meet most of Avista's flexibility requirements for load and intermittent generation, though thermal generation is playing a larger role as load growth and intermittent generation increase flexibility demands.

Section Highlights

- Avista's first long-term capacity deficit net of energy efficiency is in 2021; the first energy deficit is in 2026.
- Avista plans to a 22.6 percent planning margin.
- The 2015 IRP meets all EIA mandates over the next 20 years with a combination of qualifying hydroelectric upgrades, Palouse Wind, and Kettle Falls.

Reserve Margins

Planning reserves accommodate situations when load exceeds and/or resource output is below expectations due to adverse weather, forced outages, poor water conditions, or other contingencies. Reserve margins, on average, increase customer rates when compared to resource portfolios without reserves because of the additional cost of carrying rarely utilized generating capacity. Reserve resources have the physical capability to generate electricity, but most have high operating costs that limit their dispatch and revenues.

There is no industry standard reserve margin level; standardization across systems with varying resource mixes, system sizes, and transmission interconnections, is difficult. NERC defines reserve margins as follows:

Generally, the projected demand is based on a 50/50 forecast. Based on experience, for Bulk Power Systems that are not energy-constrained, reserve margin is the difference between available capacity and peak demand, normalized by peak demand shown as a percentage to maintain reliable operation while meeting unforeseen increases in demand (e.g. extreme weather)

and unexpected outages of existing capacity. Further, from a planning perspective, planning reserve margin trends identify whether capacity additions are keeping up with demand growth. As this is a capacity based metric, it does not provide an accurate assessment of performance in energy limited systems, e.g., hydro capacity with limited water resources. Data used here is the same data that is submitted to NERC for seasonal and long-term reliability assessments. Figures above shows forecast net capacity reserve margin in US and Canada from 2008 to 2017.

NERC's Reference Reserve Margin is equivalent to the Target Reserve Margin Level provided by the Regional/subregional's own specific margin based on load, generation, and transmission characteristics as well as regulatory requirements. If not provided, NERC assigned 15 percent Reserve Margin for predominately thermal systems and 10 percent for predominately hydro systems. As the planning reserve margin is a capacity based metric, it does not provide an accurate assessment of performance in energy limited systems, e.g., hydro capacity with limited water resources.¹

The Avista hydroelectric system is energy constrained so the 10 or 15 percent metrics from NERC do not adequately define its reserve needs. Beyond reserve margins, the utility must maintain operating reserves to cover forced outages on the system. Per Western Electric Coordinating Council (WECC) requirements, Avista must maintain 1.5 percent of current load, and 1.5 percent of on-line generation, as spinning reserves and 1.5 percent of current load and 1.5 percent of on-line generation as standby reserves.² Avista must also hold load regulation reserves to meet the load following and regulation requirements of within-hour load and generation variability.

Avista is participating in the evaluation of a regional Energy Imbalance Market (EIM). The EIM would create a trading market for regulation services, among other products. While this market may not necessarily reduce the amount of required capacity, it may lower customer rates by providing Avista another market to buy and sell short-term capacity products and services. The EIM is discussed in more detail later in this chapter.

Planning Margin

Utility capacity planning begins with regional planning. The regional position affects individual utility resource acquisition decisions. The Northwest has a history of being capacity surplus and energy deficit because of hydroelectric generation. Since the 2000-01 energy crisis, the region added nearly 6,000 MW of natural gas-fired generation to the resource portfolio; nearly 3,500 MW was constructed immediately after the crisis. During this same time, Oregon and Washington added 7,850 MW of wind resources. With recent wind additions, and their lack of on-peak capacity contribution, the region is approaching a capacity balance with loads; but unlike the

¹ <http://www.nerc.com/pa/RAPA/ri/Pages/PlanningReserveMargin.aspx>

² Spinning reserves sync to the system while stand-by reserves must be available within 10 minutes.

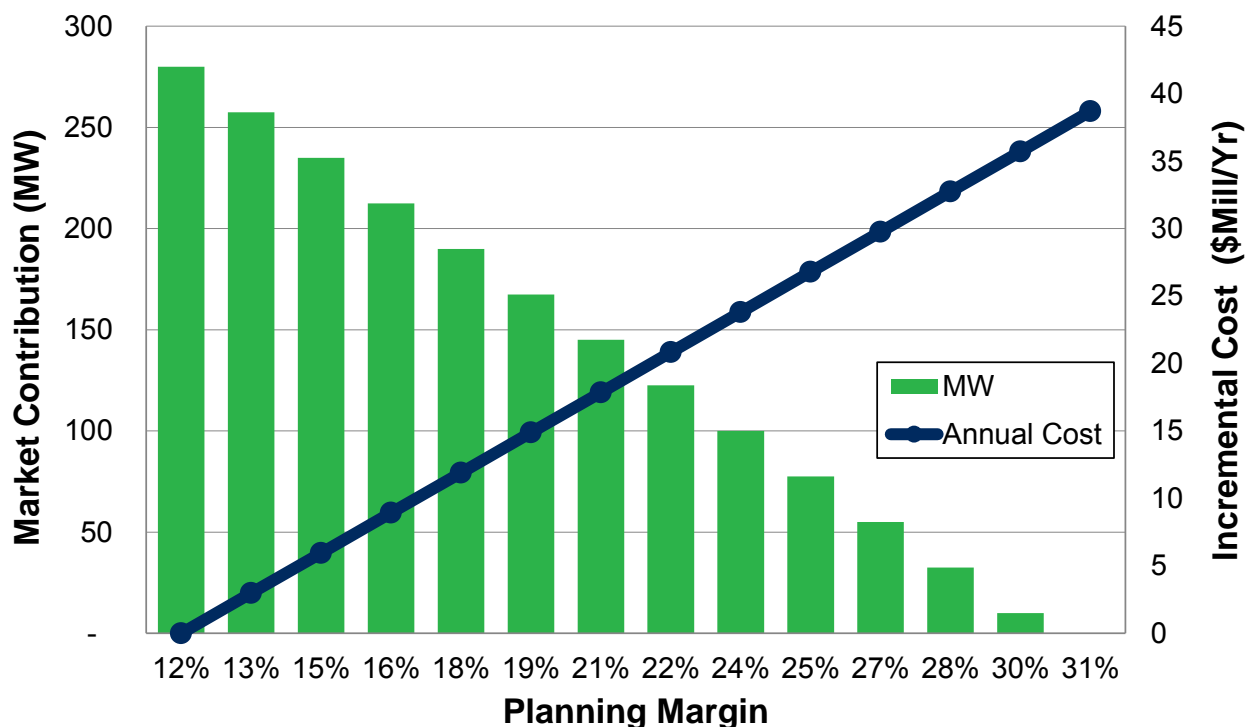
past, the region remains long on energy due to the quantity of wind generation added to the system.

Given the interconnected landscape of the northwest power market, selecting a planning margin target is not straightforward. One approach is to conduct a regional loss of load probability (LOLP) study calculating the amount of capacity required to meet the five percent LOLP threshold. Five percent LOLP means utilities meet all customer demand in 19 of 20 years, or one loss of load event permitted on a planning basis in 20 years due to insufficient generation. Regional LOLP analysis is beyond the scope of an IRP. Fortunately, the NPCC conducts regional LOLP studies. Based on their work, the Northwest begins to fail a five percent LOLP test in the winter of 2020-21, with an 8.3 percent LOLP.³ The NPCC identifies a need of 1,150 MW of natural gas-fired capacity to eliminate potential 2021 resource shortfalls. The projected shortages occur primarily in the winter, with a small chance of shortage in the summer. At this time, the NPCC has not interpreted these study results into a planning margin. Absent the NPCC translation to planning margin, Avista estimated the regional planning margin, inclusive of operating reserves, to be between 23 and 24 percent for the region.

Avista is an interconnected utility, an advantage over its sister utility Alaska Electric Light & Power (AELP). AELP is an electrical island, and must meet all loads with its own resources without relying on its neighbors. AELP retain large reserve margins to account for avalanche danger. Given its status as an electrical island, AELP typically holds reserves at 115 percent of its peak load. Avista, as an interconnected utility, can rely on its neighbors and target lower planning margins. The harder question is how much reliance to place on the wholesale market. In previous IRPs Avista has shown a chart like Figure 6.1. It shows the tradeoff between the amount of added resources, i.e., planning margin, to the added ratepayer cost and amount of market reliance required to meet the five percent LOLP. For example, if Avista were an electrical island like AELP, it would require a 31 percent planning margin adding nearly \$40 million to rates annually. On the opposite end of the spectrum, if the marketplace had 275 megawatts available, a 12 percent planning margin would meet the 5 percent LOLP for no added cost. Figure 6.1 also explains that in 2020, absent any resource additions or market reliance, Avista has a 12 percent reserve margin.

³ John Fazio, NPCC, <http://www.nwcouncil.org/media/7149183/may-1-2015-raac-steer-2020-21-adequacy-assessment.pdf>. The LOLP result primarily is due to the retirements of the Boardman and Centralia coal-fired plants, and to a lesser extent regional load growth.

Figure 6.1: 2020 Market Reliance & Capacity Cost Tradeoffs



Avista reviewed planning margins used by transmission organizations and utilities across the country. The results varied depending on the depth and breadth of the interconnection, and the types and quantities of resources within the system. One challenge in comparing planning margins across utilities is determining whether they include ancillary service obligations in their planning margins. Figure 6.2 illustrates the range of utility planning margins. Utilities with minimal interconnection or large hydroelectric base have higher planning margins than better-interconnected and/or thermal-based systems. Avista and its neighbors generally have large hydroelectric bases, implying their planning margins might need to be higher than the NERC 15 percent recommendation.

Another metric to consider when selecting the appropriate planning margin is the utility's largest single contingency relative to peak load. Avista's largest single unit contingency is Coyotes Springs 2. This plant met 16 percent of weather-adjusted peak load in 2014, a high statistic relative to its Western Interconnect peers. Figure 6.3 illustrates the single largest contingencies for selected utilities in the West. Excluding Avista, the average percentage of peak load is 11 percent, with a high of 33 percent for Sierra Pacific (Tracy CCCT rated at 553 MW) and a low of 5 percent for BC Hydro with several hydroelectric units at 500 MW each.

Some resource planners argue planning margins should not be less than the single largest contingency—if your largest resource fails, other resources may not be able to replace it. Given the Northwest's contingency reserve sharing agreement, lower reserve levels are necessary for the first hour following a qualifying generation outage.

Signatories to the contingency reserve sharing agreement can call on assistance from neighboring utilities for up to 60 minutes to help meet their energy shortage. Beyond the first hour, the utility is responsible for replacing the lost power. Power comes from the marketplace, if available, or from existing reserves.

Figure 6.2: Planning Margin Survey Results

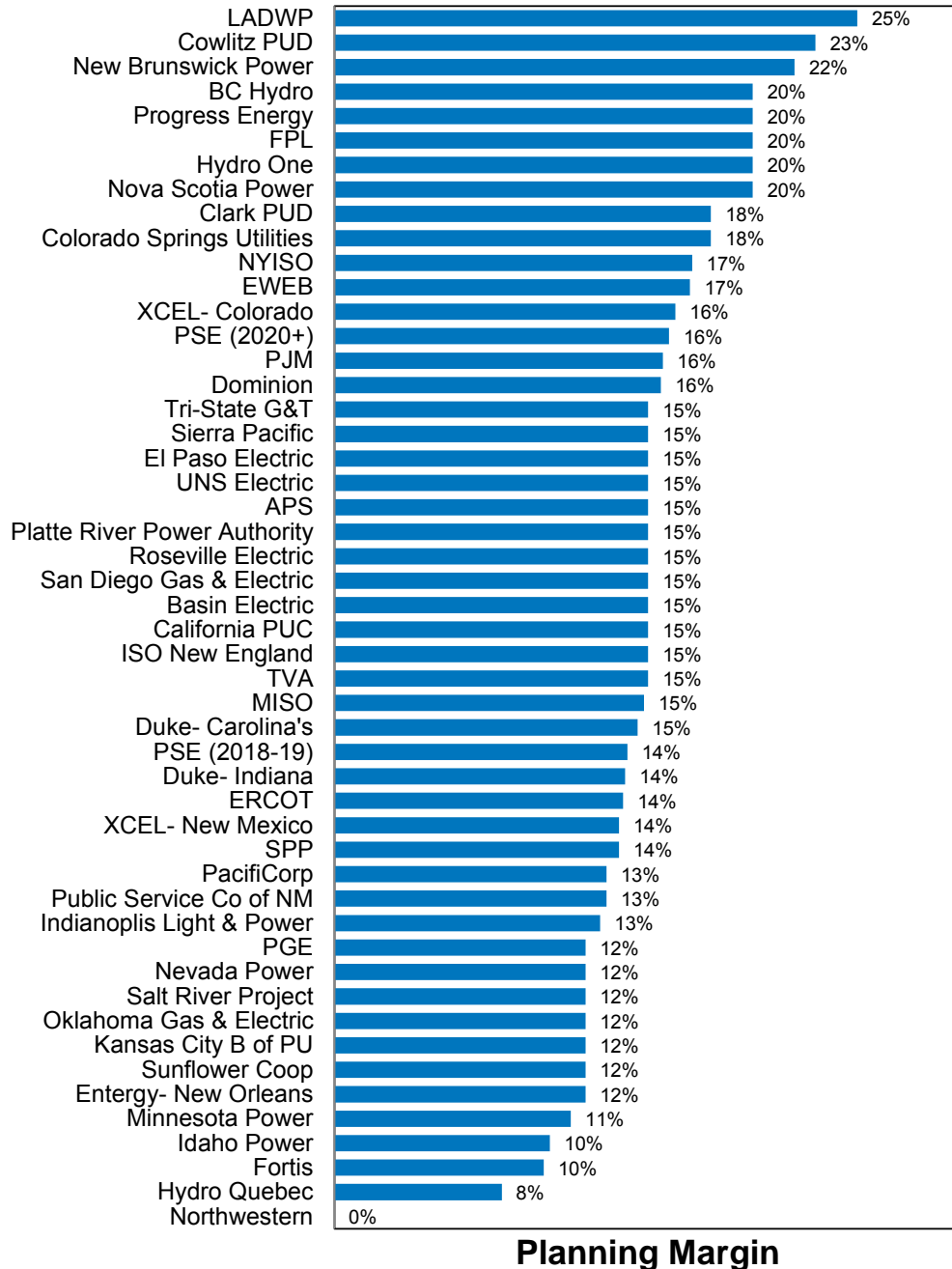
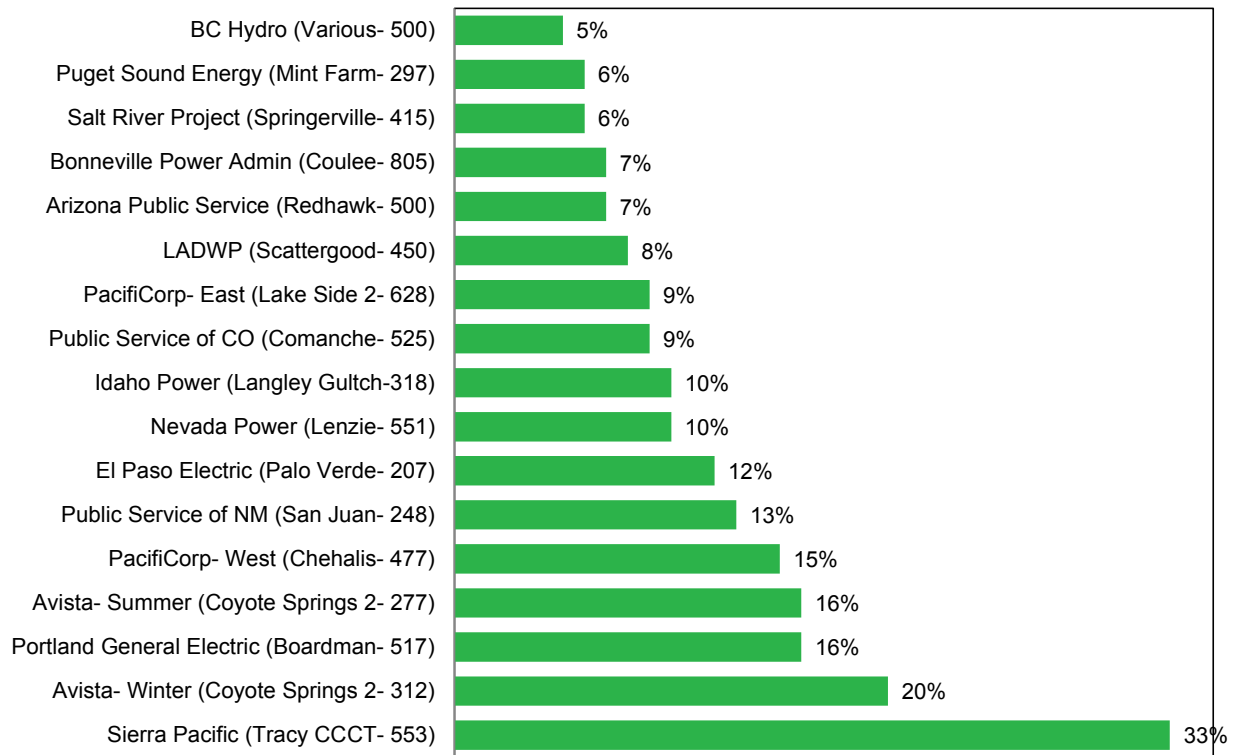


Figure 6.3: Single Largest Contingency Survey Results**Single Largest Contingency as Percent of 2014 Peak Load Estimate**

Flexibility Requirements

Renewable portfolio standards, high feed-in tariff and PUPRA prices, and falling costs have led to more intermittent wind and solar generation in the Northwest. Unlike traditional generation resources, intermittent generation consumes system capacity to meet its generation variability. This is similar to holding generation capacity for unknown changes in load, but differs because changes in renewable generation output are typically larger and more volatile than load changes. Avista and many of its peer utilities have conducted studies to ensure they have enough flexible capacity to support intermittent resources. However, analytical methods contained in these studies are not fully mature because it is a relatively new concept for the industry.

Avista has identified an initial analytical process for this IRP. The first step looks at the requirements of the system for variation on different time horizons. This analysis looks at the five, ten, 15 and 60 minute periods in calendar year 2013. Avista chose 2013 because of data availability and the need to forecast additional variation is not necessary at this time, as no new renewable resources are expected and projected load growth is minimal.

The study estimated the amounts of capacity reserves required in the 95th and 99th percentile, or 8,322 and 8,672 hours of the 8,760 hours of a year. While Avista will need to meet all needs during the calendar year, some reliance on the wholesale marketplace is appropriate. Figures 6.4 and 6.5 outline the amount of capacity required to meet the

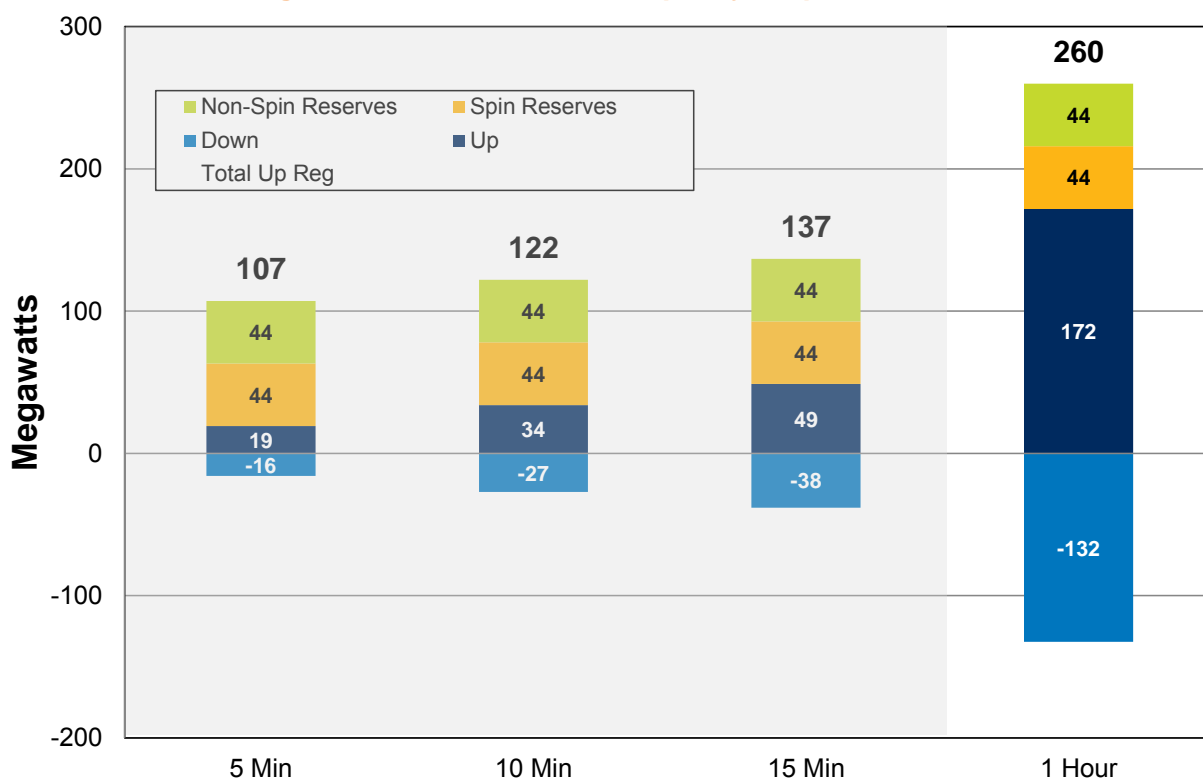
variation in load, wind, and operating reserve requirements at the 95th and 99th percentiles. Over the five-minute time range, Avista needs 100 MW to 107 MW of flexible resources or regulation. These regulating resources can instantaneously move generation levels to meet demand. Extending the time horizon to 10-minutes, 110 MW to 122 MW are required, and 120 MW to 137 MW are required for the 15-minute interval. Each of these time periods are regulation services, but 44 MW of these requirement can be stand-by ready to dispatch in 10-minutes. As one hour is approached, the capacity requirement increases, but is typically met with load following resources.

These charts identify the requirements to meet flexible demands on the system, but not the supply to meet it. Avista outlines in Chapter 4 those resources currently meeting our flexibility requirement. Avista typically uses a combination of the Mid-Columbia contracts and its Clark Fork projects to provide regulation and load following services, but may use natural gas-fired peaking resources to meet the non-spin or supplemental operating requirements. Recently added controls at Coyote Springs 2 allow it to provide regulation services, taking advantage of its available capacity. Figure 9.5 in Chapter 9 shows the excess reserves by month to meet these requirements.

Figure 6.4: 95th Percentile Capacity Requirements



Figure 6.5: 99th Percentile Capacity Requirements



Avista's Planning Margin and Flexibility Reserve Levels

The NPCC's Seventh Power Plan finds the region is surplus capacity through 2020. Avista will not acquire additional capacity until its expected peak loads, plus reserve margins, exceed resources beyond 2020 either on a single-hour or on a sustained 3-day event basis. To meet customer loads in a reliable and cost effective manner, Avista uses a 14 percent planning margin added to the expected one-in-two winter peak load forecast.⁴ Further, it plans to meet the operating reserve requirements for spin and non-spin requirements as set by the WECC. Lastly, Avista retains an additional 16 MW of regulation to serve variation in load and wind generation within the peak hour. In the winter, the total reserve requirement equals a 22.6 percent planning margin. This level is in line with NPCC estimates for an adequate supply as described earlier in this chapter.

In summer months, the NPCC study shows the region has a minimal chance of a loss of load event. Given the low probability of a load loss regionally, Avista assigns a zero percent-planning margin in the summer months and relies on the market exception for meeting its balancing area reserve requirements and 16 MW of regulation in the peak hour. Avista will monitor the summer market depth and will revise the planning margin assumption if regional capacity surpluses fall due to load growth or exports.

⁴ One-in-two load is the peak load day during an average coldest winter day.

Energy Imbalance Market

Avista is participating in a regional effort to evaluate the development of an intra-hour Energy Imbalance Market (EIM) in the Northwest Power Pool area. The Market Coordination (MC) Initiative, officially launched on March 19, 2012 to explore alternatives to address the growing operational and commercial challenges to integrate variable energy resources affecting the regional power system.

The MC Initiative's core function is to lower the cost to serve load within the market footprint by re-dispatching voluntarily offered resources. Balancing Authorities (BA) will collectively reduce the quantity of within-hour balancing resources to maintain their systems if the EIM can capture the regional load and resource diversity, and BAs agree on protocols for allocating reserves and ramping capability obligations among participants.

The EIM, as proposed for the Northwest Power Pool area, seeks incremental efficiencies within each real-time operating period. It does this through economic re-dispatch of available (voluntarily offered) resources. Combining these resources from each BA's non-offered (or "self-dispatched") resources will provide a lower-cost solution to meet all loads in the market footprint through each dispatch interval. The EIM does this by executing a security-constrained economic dispatch process for every five-minute interval within the operating hour. This process accounts for the capabilities and prices of the volunteered and committed generating resources for re-dispatch, and the real-time capability of the transmission system to accommodate flows resulting from a central market-instructed re-dispatch.

The name "energy imbalance market" implies the core function is managing intra-hour imbalances – such as load forecast error, generator station error (particularly from variable energy resources), or both. While covering these imbalances is an integral part of the EIM, it is not the main objective of the overall economic optimization process. This market allows BAs to use lower-cost generation when sufficient real-time transmission is available to replace higher-cost generation dispatch with the lower-cost market resource.

The MC Initiative formed an Analytical Team to evaluate the potential production cost savings within the Northwest Power Pool area. The MC Initiative Executive Committee instructed the Analytical Team to identify a "minimum high-confidence" range of potential savings, using a production cost model with the latest assumptions provided by members. The base case results range from approximately \$40 million to \$90 million per year in regional gross annual savings. Additional sensitivities resulted in savings of \$70 to \$80 million dollars to the region. This analysis indicates Avista would conservatively observe approximately five percent of the total regional benefits or \$2 to \$5 million. Currently the Executive Committee is evaluating the costs to implement this market, to decide on its cost effectiveness.

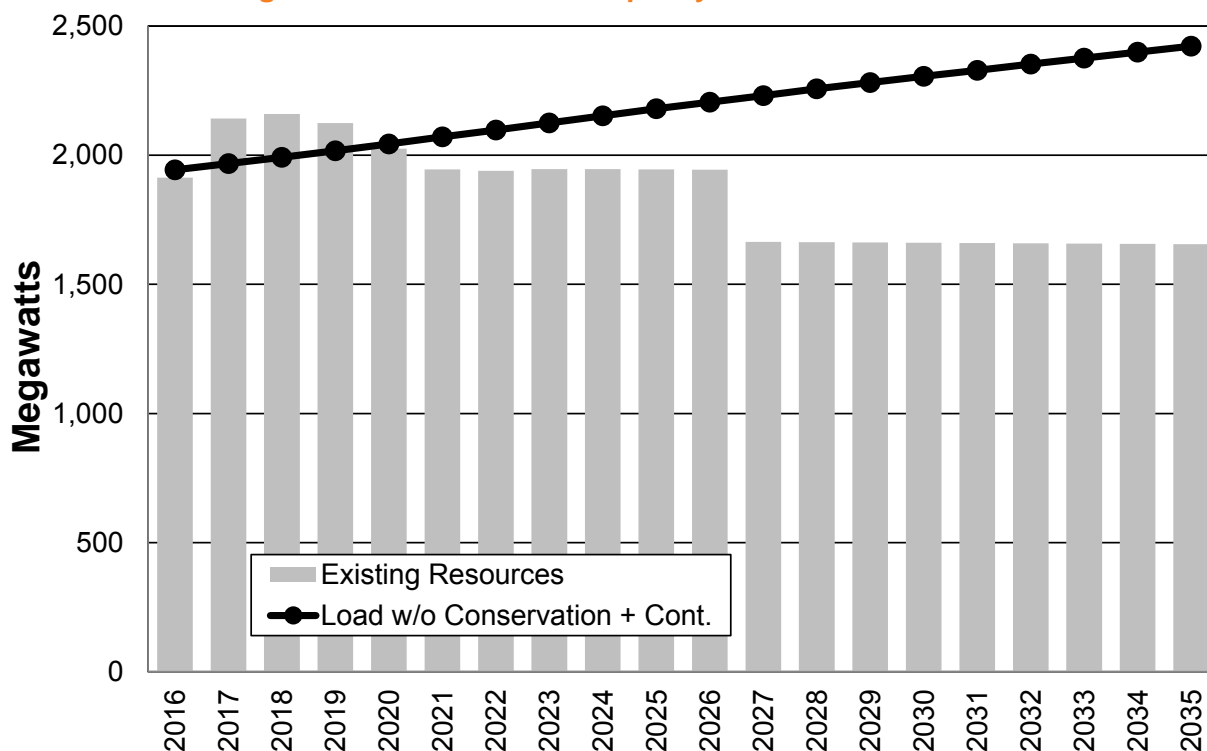
The economic dispatch savings range from about 0.7 percent to 1.5 percent of total annual production costs for the entire Northwest Power Pool area. These values do not

reflect significant additional benefits indicated in cases modeling potential reductions in flexible reserve requirements. These benefits may add \$100 million or more to the expected annual benefit levels. Avista is not assuming this reduction to reserve requirements for meeting its peak load obligations for this IRP, but does expect to optimize its reserves within the year if an EIM implementation occurs.

Balancing Loads and Resources

Both single-hour and sustained-peak requirements compare future projections of utility loads and resources. The single peak hour is more of a concern in the winter than the three-day sustained 18-hour peak. During winter months, the hydroelectric system is able to sustain generation levels for longer periods than in the summer due to higher inflows. Figure 6.6 illustrates the winter balance of loads and resources; the first year Avista identifies a significant winter capacity deficit is January 2021. The load resource comparison removes conservation from the load forecast to show the total resource need. Conservation will lower this need, but the plan requires new generating resources to meet the remaining shortfall. Avista has small short-term deficits in 2015 and 2016, but regional surplus and the expiration of a 150-MW capacity contract with Portland General Electric at the end of 2016 suggests the utility should rely on the short-term marketplace to meet these deficits.

Figure 6.6: Winter 1 Hour Capacity Load and Resources

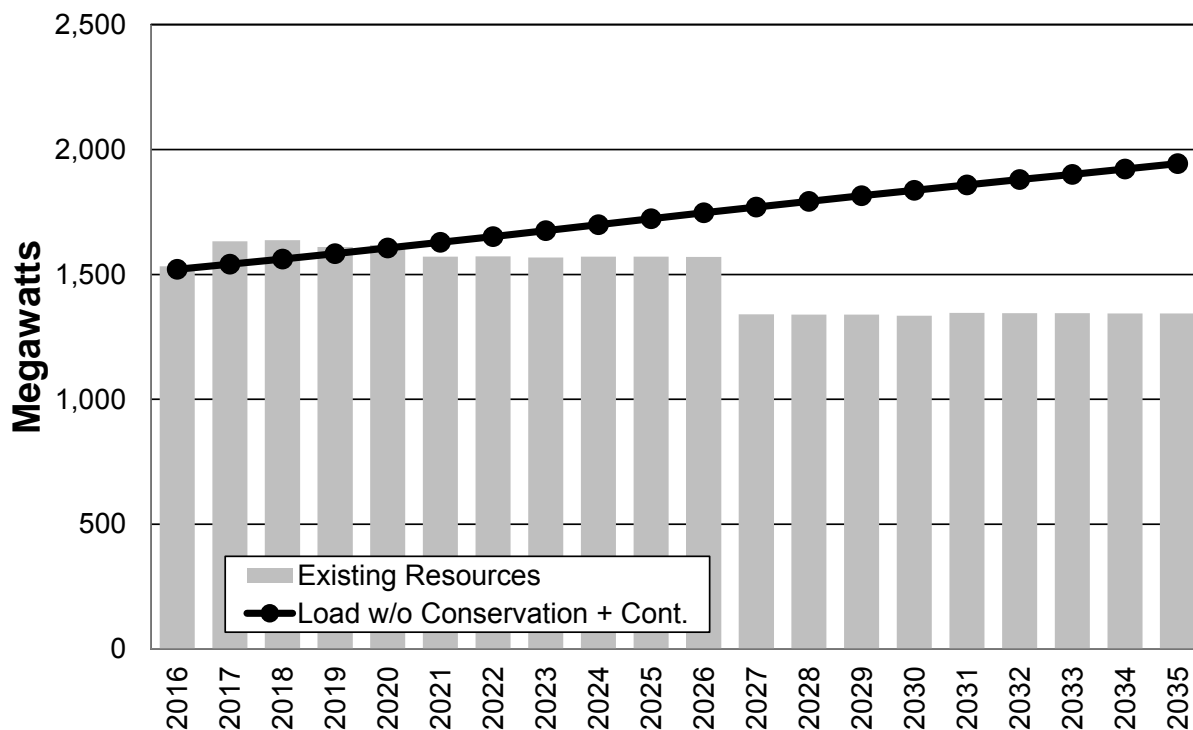


Avista plans to meet the summer peak load differently than the winter peak. Avista’s planning margin during the summer includes only its ancillary service obligations. Market purchases in the deep regional market will satisfy any weather-induced load

variation or generation forced outage. Resource additions to serve winter peaks meet the smaller summer deficits as well.

Figure 6.7 shows Avista's summer resource balance. This chart differs from the winter load and resource balance by using an 18-hour sustained peak rather than the single hour peak. The sustained peak is more constraining in the summer months due to reservoir restrictions and lower river flows reducing the amount of continuous hydroelectric generation available to meet load.

Figure 6.7: Summer 18-Hour Capacity Load and Resources



Energy Planning

For energy planning, resources must be adequate to meet customer requirements even when loads are high for extended periods, or a sustained outage limits the contribution of a resource. Where generation capability is not adequate to meet these variations, customers and the utility must rely on the short-term electricity market. In addition to load variability, planning margins account for variations in hydroelectric generation.

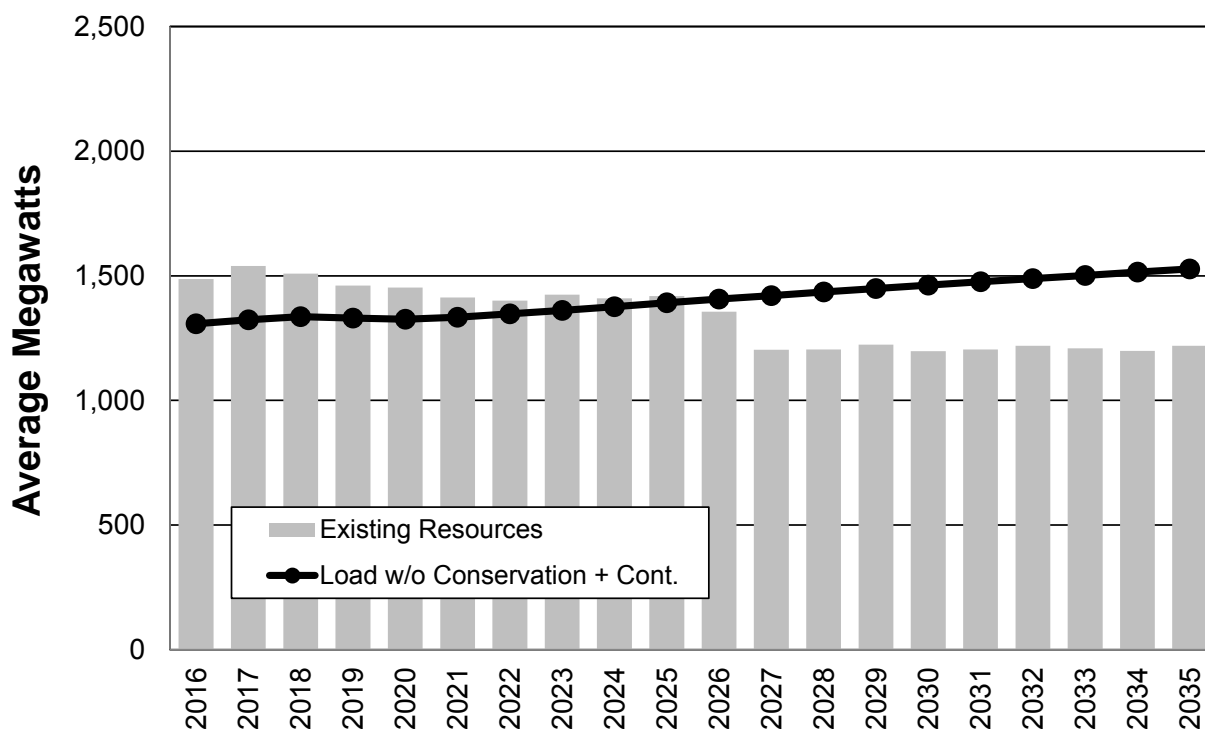
As with capacity planning, there are differences in regional opinions on the proper method for establishing energy-planning margins. Many utilities in the Northwest base their planning on the amount of energy available during the “critical water” period of 1936/37.⁵ The critical water year of 1936/37 is low on an annual basis, but it does not represent a low water condition in every month. The IRP could target resource development to reach a 99 percent confidence level on being able to deliver energy to

⁵ The critical water year represents the lowest historical generation level in the streamflow record.

its customers, and it would significantly decrease the frequency of its market purchases. However, this strategy requires investments in approximately 200 MW of generation in addition to the margins included in the Expected Case of the 2015 IRP to cover a one-in-one-hundred year event. Investments to support this high level of reliability would increase pressure on retail rates for a modest benefit. Avista instead plans to the 90th percentile for hydroelectric generation. There is a one-in-ten-year chance of needing to purchase energy from the market in any given month over the IRP timeframe, but in nine of ten years, Avista is able to meet all of its energy requirements and sell surplus electricity into the marketplace.

Beyond load and hydroelectric variability, Avista’s WNP-3 contract with BPA contains supply risk. The contract includes a return energy provision in favor of BPA that can equal 32 aMW annually. Under adverse market conditions, BPA almost certainly would exercise this right, as it did during the 2001 Energy Crisis. To account for this contract risk, the energy contingency increases by 32 aMW until the contract expires in 2019. With the addition of WNP-3 contract contingency to load and hydroelectric variability, the total energy contingency amount equals 194 aMW in 2016. See Figure 6.8 for the summary of the annual average energy load and resource net position.

Figure 6.8: Annual Average Energy Load and Resources



Washington State Renewable Portfolio Standard

In the November 2006 general election, Washington voters approved the EIA. The EIA requires utilities with more than 25,000 customers to source 3 percent of their energy from qualified renewables by 2012, 9 percent by 2016, and 15 percent by 2020. Utilities

also must acquire all cost effective conservation and energy efficiency measures. In 2011, Avista acquired the output from the Palouse Wind project through a 30-year power purchase agreement to help meet the EIA goal. In 2012, an amendment to the EIA allowed some biomass facilities built prior to 1999 to qualify under the law beginning in 2016. This amendment allows Avista's 50 MW Kettle Falls project to qualify and help meet EIA goals.

Table 6.1 shows the forecast amount of RECs Avista needs to meet Washington state law, and the amount of qualifying resources already in Avista's generation portfolio. Without the ability to roll RECs from previous years, Avista would require additional renewables in 2030. With the ability to roll over excess RECs one year, Avista does not expect to need additional resources to meet the EIA over the planning horizon of this IRP. Avista may have surplus renewables depending upon the qualifying output of Kettle Falls. Kettle Falls qualifying output may vary depending upon the quantity of fuel meeting the EIA old growth provision, the availability of fuel, and the economics of the facility. Given its expected length in renewables through 2020, Avista will market the excess RECs until 2019. Beginning in 2019, surplus RECs will roll into use in 2020, allowing the banking provision to delay the requirement for additional resources.

Table 6.1: Washington State EIA Compliance Position Prior to REC Banking

	2016	2020	2025	2030	2035
Percent of WA Sales	9%	15%	15%	15%	15%
2-Yr Rolling Avg. WA Retail Sales Estimate	645	662	671	682	696
Renewable Goal	-58	-99	-101	-102	-104
Incremental Hydro	23	23	23	23	23
Net Renewable Goal	-35	-77	-78	-79	-82
Other Available REC's					
Palouse Wind w/ Apprentice Credits	48	48	48	48	48
Kettle Falls (67% Capacity Factor)	31	31	31	31	31
Net Renewable Position (before rollover RECs)	44	3	1	0	-2
Net Renewable Position with KF at 90% Capacity Factor	55	14	12	11	8

7. Policy Considerations

Public policy affects Avista’s current generation resources and the types of resources it can pursue. Each resource presents different cost, environmental, operational, political, regulatory and siting challenges that need to be considered when choosing the next resource to pursue. The political and regulatory environments have changed significantly since publication of the last IRP with the proposed Clean Power Plan in June 2014. Current and proposed regulations by the Environmental Protection Agency (EPA), coupled with political and legal efforts, have particular implications for coal generation, as they involve regional haze, coal ash disposal, mercury emissions, water quality, and greenhouse gas emissions. This chapter provides an overview and discussion about some of the more pertinent public policy issues relevant to the IRP.

Chapter Highlights

- The 2015 IRP reduces carbon emissions with existing carbon costs, the goals of the Clean Power Plan proposal, and a 10 percent probability of a carbon tax.
- Scenario analyses address the impacts of the Clean Power Plan proposal by state and regionally, as well as various issues for Avista’s Colstrip ownership interest.
- Avista’s Climate Policy Council monitors greenhouse gas legislation and environmental regulation issues.

Environmental Issues

The continuously evolving nature of environmental regulation constructs unique resource planning challenges. If avoiding certain air emissions were the only issue facing electric utilities, resource planning would only require a determination of the amounts and types of renewable generating technology and energy efficiency to acquire. However, the need to maintain system reliability, acquire resources at least cost, mitigate price volatility, meet renewable generation requirements, manage financial risks, and meet changing state-level environmental laws sometimes creates conflict. Each generating resource has distinctive operating characteristics, cost structures, and environmental regulatory challenges that can change significantly based on timing and location.

Traditional thermal generation technologies, like coal- and natural gas-fired plants, provide reliable capacity and energy. Coal-fired units have high capital costs, long permitting and construction lead times, but they have relatively low and stable fuel costs. New coal plants are difficult, if not impossible, to site today due to state and federal laws and regulations, local opposition, their relatively high costs when compared to natural gas-fired plants, and environmental concerns ranging from the impacts of coal mining to combustion emissions. Remote mine locations increase costs from either the transportation of coal to the plant or the transportation of the generated electricity to load centers.

By comparison, natural gas-fired plants have relatively low capital costs compared to coal, can typically be located closer to load centers, can be constructed in relatively short time frames, emit less than half the greenhouse gases of conventional coal generation, have fewer other emissions and waste product issues, and are often the only utility-scale baseload resource available in many locations. Higher fuel price volatility has historically affected the economics of natural gas-fired plants, their performance decreases in hot weather conditions, it is increasingly difficult to secure sufficient water rights for their efficient operation, and they emit significant greenhouse gases relative to renewable resources.

Renewable energy technologies such as wind, biomass, and solar generation have different challenges. Renewable resources are attractive because they have low or no fuel costs and few, if any, direct emissions. However, solar and wind-based renewable generation resources have limited or no capacity value for the operation of Avista's system, and their variable output presents integration challenges requiring additional non-variable capacity investments. Even with decreased costs for renewables, the cost and operational challenges of these variable resources can make them more difficult to choose as a part of the PRS.

Renewable projects also draw the attention of environmental groups interested in protecting visual aspects of landscapes and wildlife populations. Similar to coal plants, renewable resource projects are often located to maximize their capability rather than near load centers. The need to site renewable resources in remote locations often requires significant investments in transmission interconnection and capacity expansion, as well as mitigating possible wildlife and aesthetic issues. Some of these issues may be alleviated with distributed resources, but the price differentials of distributed resources make them more difficult to develop at utility scale. Unlike coal- or natural gas-fired plants, the fuel for non-biomass renewable resources may not be transportable from one location to another to utilize existing transmission facilities or to minimize opposition to project development. Dependence on the health of the forest products industry and access to biomass materials, often located in publicly owned forests, poses challenges to biomass facilities. Transportation costs and logistics also complicate the location of biomass plants.

The long-term economics of renewable resources is uncertain for several reasons. Federal investment and production tax credits begin expiring for projects starting construction after 2013. The continuation of credits and grants cannot be relied upon in light of the impact such subsidies have on the finances of the federal government, and the relative maturity of wind and solar technologies. Many relatively unpredictable factors affect the costs of renewable technologies, such as renewable portfolio standard goals, construction and component prices, international trade issues and currency exchange rates. Capital costs for wind and solar have decreased over the last several IRPs, but future costs remain uncertain.

Uncertainty still exists about final design and scope of greenhouse gas regulation. Pockets of strong regional and national support to address climate change exist, but little political will at the national level to implement significant new laws exists beyond the regulations proposed by the EPA and is unpredictable leading up to the 2016

presidential election. However, since the 2013 IRP publication, changes in the approach to greenhouse gas emissions regulation have occurred, including:

- The EPA proposed actions to regulate greenhouse gas emissions under the Federal Clean Air Act through the proposed Clean Power Plan; and
- California’s cap and trade regulation continues scheduled expansion throughout the economy and includes new linkages with Quebec, and an October 2013 compact to link future programs with British Columbia, Oregon and Washington.

Avista’s Climate Change Policy Efforts

Avista’s Climate Policy Council is an interdisciplinary team of management and other employees that:

- Facilitates internal and external communications regarding climate change issues;
- Analyzes policy impacts, anticipates opportunities and evaluates strategies for Avista Corporation; and
- Develops recommendations on climate related policy positions and action plans.

The core team of the Climate Policy Council includes members from Environmental Affairs, Government Relations, External Communications, Engineering, Energy Solutions and Resource Planning groups. Other areas of Avista participate on certain topics as needed. The monthly meetings for this group include work divided into immediate and long-term concerns. The immediate concerns include reviewing and analyzing proposed or pending state and federal legislation and regulation, reviewing corporate climate change policy, and responding to internal and external data requests about climate change issues. Longer-term issues involve emissions tracking and certification, considering the merits of different greenhouse gas policies, actively participating in the development of legislation, and benchmarking climate change policies and activities against other organizations.

Membership in the Edison Electric Institute is Avista’s main vehicle to engage in federal-level climate change dialog, supplemented by other industry affiliations. Avista monitors regulations affecting hydroelectric and biomass generation through its membership in other associations.

Greenhouse Gas Emissions Concerns for Resource Planning

Resource planning in the context of greenhouse gas emissions regulation raises concerns about the balance between Avista’s obligations for environmental stewardship and cost implications for customers. Resource planning considers the cost effectiveness of resource decisions, as well as the need to mitigate the financial impact of potential future emissions risks. Although some parties advocate for the immediate reduction or elimination of certain resource technologies, such as coal or even natural gas-fired plants, there are economic and reliability limitations among concerns related to pursuing this type of policy. Technologically, it is possible to replace fossil-fueled generation with renewables, but this approach results in increased cost to customers and results in reliability challenges.

State and Federal Environmental Policy Considerations

The CPP is the focus of federal greenhouse gas emissions policies since the 2013 IRP. In the prior plan, Avista did not include a specific dollar amount for cap and trade or a carbon tax on the modeling of the Western Interconnect. Modeling for jurisdictions with existing costs, such as California and British Columbia, included the appropriate costs. The 2013 IRP had an implied cost from the replacement of retired coal capacity. The Expected Case in this IRP includes a 10 percent probability of a \$12 per metric ton of greenhouse gas emissions (cost of carbon). The \$12 per metric ton proxy derives from recent auction market prices for allowances sold by the State of California. Details about the cost of carbon and the modeling results are in Chapter 10 – Market Analysis. The Expected Case also includes proposed regulatory mechanisms through sections 111(b) for new sources and 111(d) for existing sources of the Clean Air Act as described below.

The President's Climate Action Plan, released on June 25, 2013, outlined the Obama administration's three pillars of executive action regarding climate change. The pillars include:

- Reducing U.S. carbon emissions through the regulation of emissions from power plants, increased use of renewables and other clean energy technologies, and stronger energy efficiency standards;
- Make infrastructure preparations to mitigate the impacts of climate change; and
- Work on efforts to reduce international greenhouse gas emissions and prepare for the impacts of climate change.

A presidential memo was also sent to the Administrator of the EPA on the same day as the Climate Action Plan with several climate change related policy targets. The memo directed the EPA to:

- Issue new proposed greenhouse gas emissions standards for new electric generation resources by September 30, 2013.
- Issue new proposed standards for existing and modified sources by June 1, 2014, final standards by June 1, 2015, and require State implementation plans by June 30, 2016.

The EPA answered the Obama administration's Executive Order by issuing a new proposal to limit carbon dioxide emissions from new and modified coal and natural gas-fired electric generating units in late 2013, and from existing sources in June 2014. Details of these proposals are later in this chapter.

The federal Production Tax Credit (PTC), Investment Tax Credit (ITC), and Treasury grant programs are key federal policy considerations for incenting the development of renewable generation. The current PTC and ITC programs are available for non-solar projects that began construction before the end of 2013 and 2016 for solar projects. Avista did not model an extension of these tax incentives because of the uncertainty of their continuation. This situation may change and would affect modeling assumptions for the 2017 IRP. Extension of the PTC may accelerate the development of some

regional renewable energy projects. This may affect the development of renewable projects in the Western Interconnect, but not necessarily for Avista, because the current resource mix and low projected load growth do not necessitate the development of new renewables in this IRP.

EPA Regulations

The EPA regulations directly, or indirectly, affecting electricity generation include the Clean Air Act, along with its various components, such as the Acid Rain Program, National Ambient Air Quality Standard, Hazardous Air Pollutant rules and the Regional Haze Programs. The U.S. Supreme Court ruled the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles and has issued such regulations. When these regulations became effective, carbon dioxide and other greenhouse gases became regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program. Both of these programs apply to power plants and other commercial and industrial facilities. In 2010, the EPA issued a final rule, known as the Tailoring Rule, governing the application of these programs to stationary sources, such as power plants. EPA proposed a rule in early 2012, and modified in 2013, setting standards of performance for greenhouse gas emissions from new and modified fossil-fuel-fired electric generating units and for existing sources through the Clean Power Plan in June 2014.

Promulgated PSD permit rules may affect Avista's thermal generation facilities in the future. These rules can affect the amount of time it takes to obtain permits for new generation and major modifications to existing generating units and the final limitations contained in permits. The promulgated and proposed greenhouse gas rulemakings mentioned above have been legally challenged in multiple venues so we cannot fully anticipate the outcome or extent our facilities may be impacted, nor the timing of rule finalization.

Clean Air Act

The Clean Air Act (CAA), originally adopted in 1970 and modified significantly since, intends to control covered air pollutants to protect and improve air quality. Avista complies with the requirements under the CAA in operating our thermal generating plants. The CAA currently requires a Title V operating permit for Colstrip Units 3 and 4 (expires in 2017), Coyote Springs 2 (expires in 2018), the Kettle Falls GS (renewal expected in 2015), and the Rathdrum CT (expires in 2016). Boulder Park, Northeast CT, and other small activities only require minor source operating or registration permits based on their limited operation and emissions. Title V operating permits renewals occur every five years and typically update all applicable CAA requirements for each facility. Discussion of some major CAA programs follows.

New Source Proposal

After receiving over 2.5 million comments regarding the initial April 2012 proposal regarding new resources under section 111(b) of the CAA, the EPA withdrew that proposal and submitted a new proposal on September 20, 2013. This proposal covers new fossil fuel-fired resources larger than 25 MW for the following resource types:

- Natural gas-fired stationary combustion turbines: 1,000 pounds CO₂ per MWh for units burning greater than 850 mmBtu/hour and 1,100 pounds CO₂ per MWh units burning less than or equal to 850 mmBtu/hour.
- Fossil fuel-fired utility boilers and integrated gasification combined cycle (IGCC) units: 1,100 pounds CO₂ per MWh over a 12-operating month period or 1,000 – 1,500 pounds CO₂ per MWh over a seven-year period.

The proposal will probably change when the EPA finalizes in the summer of 2015. The final rule will guide modeling assumptions for the 2017 IRP.

Clean Power Plan

The EPA issued the draft CPP on June 2, 2014. This plan aims to reduce national greenhouse gas emissions from covered fossil-fueled electric generating units by 30 percent by 2030 from a 2005 baseline, with an interim goal in 2020. The draft rule calculated emission rate targets for each state using a combination of four building blocks:

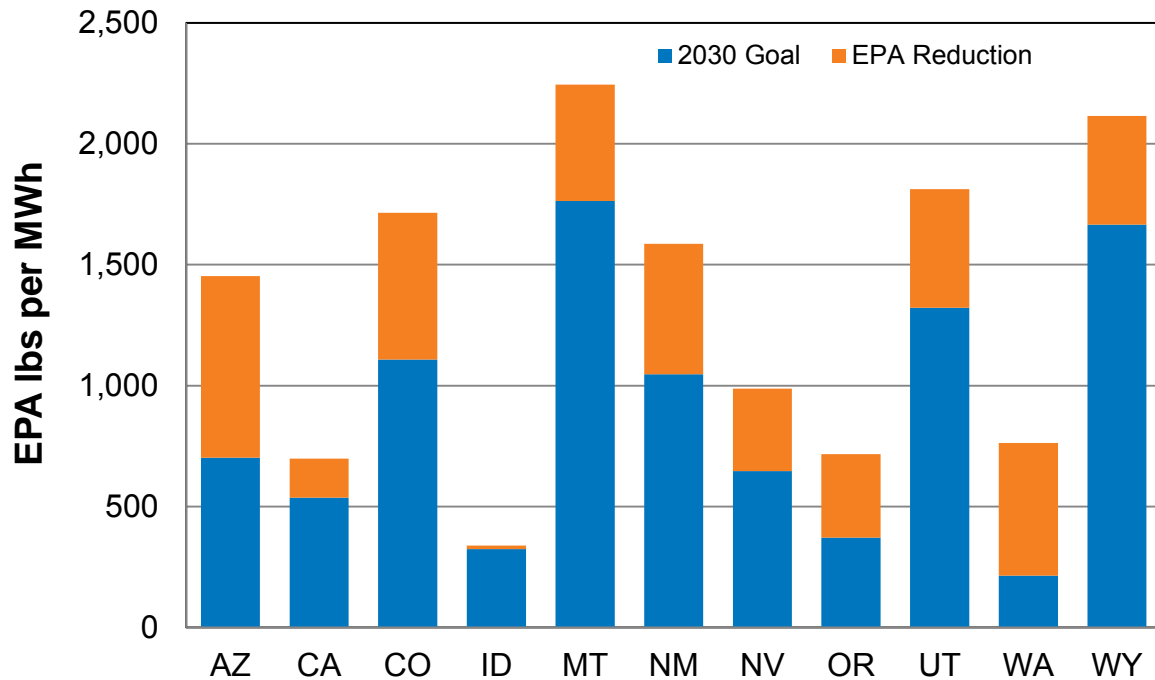
1. Heat rate improvements at coal plants up to six percent;
2. Displacement of coal-fired and oil-fired steam generation by increasing utilization of natural gas-fired combined cycle plants up to a 70 percent capacity factor;
3. Utilization of more low or zero carbon emitting generation resources (including 6 percent of nuclear capacity); and
4. Increase demand side efficiency by 1.5 percent per year between 2020 and 2029.

The EPA used 2012 data for the baseline for each state. The EPA expects to finalize the CPP late in the summer of 2015 and states will need to submit compliance plans to the EPA by June 2016 with a potential for extension until June 2017, or June 2018 if the state becomes part of a regional compliance program. The building blocks could constitute the best system of emission reduction a state could propose in its compliance plan. However, states might also propose to comply through other measures, including a cap and trade form of regulation. The State of Washington, through the provisions of the EIA (Chapter 19.285 RCW), currently applies renewable energy and energy efficiency standards to Avista's electric operations. The State also imposes an emissions performance standard under Chapter 80.80 RCW to long-term financial commitments made by electric utilities when acquiring new baseload generation or upgrading existing fossil-fueled baseload generation.

Several aspects of the proposed Clean Power Plan are problematic. The TAC discussed these issues in several of its meetings. Some issues include the impact of the 2012 baseline year on hydroelectric generation, the affect on combined cycle resources in Idaho, the immediate impact of the first two building blocks on the 2020 interim goal, and the short time to develop regional solutions in light of the interim goal and legislation that may be required from some of the states. Some adjustments to modeling for the 2015 IRP attempt to alleviate some of these issues to make them into a workable plan. Updates to 2017 IRP modeling assumptions will account for any changes made in the final Clean Power Plan and subsequent state implementation plans.

Figure 7.1 includes the IRP's adjusted 2030 goal in comparison to the 2012 baseline. The orange portion of the bar shows the proposed reduction. Washington State has the highest percentage reduction, followed by Arizona. Idaho has the lowest reduction after an assumed adjustment for 2012 partial year of operations at Langley Gulch.

Figure 7.1: Clean Power Plan 2030 Emission Intensity Goals



Acid Rain Program

The Acid Rain Program is an emission-trading program for reducing nitrous dioxide by two million tons and sulfur dioxide by 10 million tons below 1980 levels from electric generation facilities. Avista manages annual emissions under this program for Colstrip Units 3 and 4, Coyote Springs 2, and Rathdrum Generating Stations.

National Ambient Air Quality Standards

EPA sets National Ambient Air Quality Standards for pollutants considered harmful to public health and the environment. The CAA requires regular court-mandated updates to occur in June 2013 for nitrogen dioxide, ozone, and particulate matter. Avista does not anticipate any material impacts on its generation facilities from the revised standards at this time.

Hazardous Air Pollutants (HAPs)

HAPs, often known as toxic air pollutants or air toxics, are pollutants that may cause cancer or other serious health effects. EPA regulates toxic air pollutants from a published list of industrial sources referred to as "source categories". These pollutants must meet control technology requirements if they emit one or more of the pollutants in significant quantities. EPA finalized the Mercury Air Toxic Standards (MATS) for the coal and oil-fired source category in 2012. Colstrip Units 3 and 4's existing emission

control systems should be sufficient to meet mercury limits. For the remaining portion of the rule specifically addressing air toxics (including metals and acid gases), the joint owners of Colstrip are currently evaluating what type of new emission control systems will be required to meet MATS compliance in 2016. Avista is unable to determine to what extent, or if there will be any, material impact to Colstrip Units 3 and 4 at this time.

Regional Haze Program

EPA set a national goal to eliminate man-made visibility degradation in Class I areas by the year 2064. Individual states are to take actions to make “reasonable progress” through 10-year plans, including application of Best Available Retrofit Technology (BART) requirements. BART is a retrofit program applied to large emission sources, including electric generating units built between 1962 and 1977. In the absence of state programs, EPA may adopt Federal Implementation Plans (FIPs). On September 18, 2012, EPA finalized the Regional Haze FIP for Montana. The FIP includes both emission limitations and pollution controls for Colstrip Units 1 and 2. Colstrip Units 3 and 4 are not currently affected, although the units will be evaluated for Reasonable Progress at the next review period in September 2017. Avista does not anticipate any material impacts on Colstrip Units 3 and 4 at this time.

EPA Mandatory Reporting Rule

Any facility emitting over 25,000 metric tons of greenhouse gases per year must report its emissions to EPA. Colstrip Units 3 and 4, Coyote Springs 2, and Rathdrum CT currently report under this requirement. The Mandatory Reporting Rule also requires greenhouse gas reporting for natural gas distribution system throughput, fugitive emissions from electric power transmission and distribution systems, fugitive emissions from natural gas distribution systems, and from natural gas storage facilities. The State of Washington requires mandatory greenhouse gas emissions reporting similar to the EPA requirements. Oregon has similar reporting requirements.

Coal Ash Management and Disposal

On December 19, 2014, the EPA issued a final rule regarding coal combustion residuals (CCR). This will affect Colstrip since it produces CCR. The rule establishes technical requirements for CCR landfills and surface impoundments under Subtitle D of the Resource Conservation and Recovery Act, the nation’s primary law for regulating solid waste. The final rule has not yet been published in the Federal Register. The owners of Colstrip are still reviewing the potential cost of complying with the new CCR standards. Any financial or operational impacts to Colstrip from the CCR are still estimates, but are not expected to have a material impact on Colstrip.

State and Regional Level Policy Considerations

The lack of a comprehensive federal greenhouse gas policy encouraged states, such as California, to develop their own climate change laws and regulations. Climate change legislation takes many forms, including economy-wide regulation under a cap and trade system, carbon tax or emissions performance standards for power plants. Comprehensive climate change policy can include multiple components, such as renewable portfolio standards, energy efficiency standards, and emission performance standards. Washington enacted all of these components, but other jurisdictions where Avista operates have not. Individual state actions produce a patchwork of competing rules and regulations for utilities to follow, and may be particularly problematic for multi-

jurisdictional utilities such as Avista. There are 29 states, plus the District of Columbia, with active renewable portfolio standards, and eight additional states have adopted voluntary standards.¹

Idaho Policy Considerations

Idaho currently does not regulate greenhouse gases or have a renewable portfolio standard (RPS). There is no indication that Idaho is moving toward the active regulation of greenhouse gas emissions beyond any requirements under the Clean Power Plan. The Idaho Department of Environmental Quality will administer greenhouse gas standards under its CAA delegation from the EPA.

Montana Policy Considerations

Montana has a non-statutory goal to reduce greenhouse gas emissions to 1990 levels by 2020. Montana's RPS law, enacted through Senate Bill 415 in 2005, requires utilities to meet 10 percent of their load with qualified renewables from 2010 through 2014, and 15 percent beginning in 2015. Avista is exempt from the Montana RPS and its reporting requirements beginning on January 2, 2013, with the passage of SB 164 and its signature by the Governor.

Montana implemented a mercury emission standard under Rule 17.8.771 in 2009. The standard exceeds the most recently adopted federal mercury limit. Avista's generation at Colstrip Units 3 and 4 have emissions controls meeting Montana's mercury emissions goal.

Oregon Policy Considerations

The State of Oregon has a history of considering greenhouse gas emissions and renewable portfolio standards legislation. The Legislature enacted House Bill 3543 in 2007, calling for, but not requiring, reductions of greenhouse gas emissions to 10 percent below 1990 levels by 2020, and 75 percent below 1990 levels by 2050. Compliance is expected through a combination of the RPS and other complementary policies, like low carbon fuel standards and energy efficiency measures. The state has not adopted any comprehensive requirements. These reduction goals are in addition to a 1997 regulation requiring fossil-fueled generation developers to offset carbon dioxide (CO₂) emissions exceeding 83 percent of the emissions of a state-of-the-art gas-fired combined cycle combustion turbine by paying into the Climate Trust of Oregon. Senate Bill 838 created a renewable portfolio standard requiring large electric utilities to generate 25 percent of annual electricity sales with renewable resources by 2025. Intermediate term goals include five percent by 2011, 15 percent by 2015, and 20 percent by 2020. Oregon ceased being an active member in the Western Climate Initiative in November 2011. The Boardman coal plant is the only active coal-fired generation facility in Oregon; by 2020, it will cease burning coal. The decision by Portland General Electric to make near-term investments to control emissions from the facility and to discontinue the use of coal, serves as an example of how regulatory, environmental, political and economic pressures can culminate in an agreement that results in the early closure of a coal-fired power plant.

¹ <http://www.dsireusa.org/rpsdata/index.cfm>

Washington State Policy Considerations

Similar circumstances leading to the closure of the Boardman facility in Oregon encouraged TransAlta, the owner of the Centralia Coal Plant, to agree to shut down one unit at the facility by December 31, 2020, and the other unit by December 31, 2025. The confluence of regulatory, environmental, political and economic pressures brought about the scheduled closure of the Centralia Plant. The State of Washington enacted several measures concerning fossil-fueled generation emissions and generation resource diversification. A 2004 law requires new fossil-fueled thermal electric generating facilities of more than 25 MW of generation capacity to mitigate CO₂ emissions through third-party mitigation, purchased carbon credits, or cogeneration. Washington's EIA, passed in the November 2006 general election, established a requirement for utilities with more than 25,000 retail customers to use qualified renewable energy or renewable energy credits to serve 3 percent of retail load by 2012, 9 percent by 2016 and 15 percent by 2020. Failure to meet these RPS requirements results in at least a \$50 per MWh fine. The initiative also requires utilities to acquire all cost effective conservation and energy efficiency measures up to 110 percent of avoided cost. Additional details about the energy efficiency portion of the EIA are in Chapter 6 – Long-Term Position.

A utility can also comply with the renewable energy standard by investing in at least 4 percent of its total annual retail revenue requirement on the incremental costs of renewable energy resources and/or renewable energy credits. In 2012, Senate Bill 5575 amended the EIA to define Kettle Falls Generating Station and other legacy biomass facilities that commenced operation before March 31, 1999, as EIA qualified resources beginning in 2016. A 2013 amendment allows multistate utilities to import RECs from outside the Pacific Northwest to meet renewable goals and allows utilities to acquire output from the Centralia coal plant without jeopardizing alternative compliance methods.

Avista will meet or exceed its renewable requirements in this IRP planning period through a combination of qualified hydroelectric upgrades, wind generation from the Palouse Wind PPA, and output from its Kettle Falls generation facility beginning in 2016. The 2015 IRP Expected Case ensures that Avista meets all EIA RPS goals.

Former Governor Christine Gregoire signed Executive Order 07-02 in February 2007 establishing the following GHG emissions goals:

- 1990 levels by 2020;
- 25 percent below 1990 levels by 2035;
- 50 percent below 1990 levels by 2050 or 70 percent below Washington's expected emissions in 2050;
- Increase clean energy jobs to 25,000 by 2020; and
- Reduce statewide fuel imports by 20 percent.

Washington State's Department of Ecology adopted regulations to ensure that its State Implementation Plan comports with the requirements of the EPA's regulation of greenhouse gas emissions. We will continue to monitor actions by the Department as it may proceed to adopt additional regulations under its CAA authorities. In 2007, Senate Bill 6001 prohibited electric utilities from entering into long-term financial commitments beyond five years duration for fossil-fueled generation creating 1,100 pounds per MWh or more of greenhouse gases. Beginning in 2013, the emissions performance standard is lowered every five-years to reflect the emissions profile of the latest commercially available CCCT. The emissions performance standard effectively prevents utilities from developing new coal-fired generation and expanding the generation capacity of existing coal-fired generation unless they can sequester emissions from the facility. The Legislature amended Senate Bill 6001 in 2009 to prohibit contractual long-term financial commitments for electricity deliveries that include more than 12 percent of the total power from unspecified sources. The Department of Commerce (Commerce) has commenced a process expected to adopt a lower emissions performance standard in 2013; a new standard would not be applicable until at least 2017. Commerce filed a final rule with 970 pounds per MWh for greenhouse gas emissions on March 6, 2013, with rules becoming effective on April 6, 2013.²

April 29, 2014, Washington State Governor Jay Inslee issued Executive Order 14-04, "Washington Carbon Pollution Reduction and Clean Energy Action." The order created a "Climate Emissions Reduction Task Force" to provide recommendations to the Governor on design and implementation of a market-based carbon pollution program to inform possible legislative proposals in 2015. The order also called on the program to "establish a cap on carbon pollution emissions, with binding requirements to meet our statutory emission limits." The order also states that the Governor's Legislative Affairs and Policy Office "will seek negotiated agreements with key utilities and others to reduce and eliminate over time the use of electrical power produced from coal." The Task Force issued a report summarizing its efforts, which included a range of potential carbon-reducing proposals. Subsequently, in January 2015, at Washington Governor Jay Inslee's request, the Carbon Pollution Accountability Act was introduced as a bill in the Washington legislature. The bill includes a proposed cap and trade system for carbon emissions from a wide range of sources, including fossil-fired electrical generation, "imported" power generated by fossil fuels, natural gas sales and use, and certain uses of biomass for electrical generation. The bill has not advanced as of the writing of this IRP and is not expected to during this legislative session.

² <http://www.commerce.wa.gov/Programs/Energy/Office/Utilities/Pages/EmissionPerfStandards.aspx>

8. Transmission & Distribution Planning

Introduction

Avista delivers electricity from generators to customer meters through a network of conductors, or links and stations, or nodes. The network system operates at higher voltages where the energy must travel longer distances to reduce current losses across the system. A common rule to determine efficient energy delivery is one kilovolt (kV) per mile. For example, a 115 kV power system commonly transfers energy over a distance of 115 miles, while 13 kV power systems are generally limited to delivering energy within 13 miles.

Avista categorizes its energy delivery systems between transmission and distribution voltages. Avista's transmission system operates at 115 and 230 kV nominal voltages; the distribution system operates between 4.16 and 34.5 kV, but typically at 13.2 kV in urban service centers. In addition to voltages, the transmission system operates distinctly from the distribution system. For example, the transmission system is a network linking multiple sources with multiple loads, while the distribution system configuration uses radial feeders to link a single source to multiple loads.

Chapter Highlights

- Avista actively participates in regional transmission planning forums.
- Avista System Planning transitioned from a biannual to an annual study process.
- Projects completed since the last IRP include new sections of transmission lines, and rebuilds and upgrades through the grid modernization project.
- Planned projects include reconductoring, and station rebuilds and reinforcements.
- Significant generation interconnection study work around Lind substation continues.

Coordinating transmission system operations and planning activities with regional transmission providers maintains reliable and economic transmission service for our customers. Transmission providers and interested stakeholders coordinate the region's approach to planning, constructing, and operating the transmission system under Federal Energy Regulatory Commission (FERC) rules and state and local agency guidance. This chapter complies with Avista's FERC Standards of Conduct compliance program governing communications between Avista merchant and transmission functions.

This chapter describes Avista's completed and planned distribution feeder upgrade program, the transmission system, completed and planned upgrades, and estimated costs and issues of new generation resource integration.

FERC Transmission Planning Requirements and Processes

Avista coordinates its transmission planning activities on a voluntary basis with neighboring interconnected transmission operators. Additionally, Avista complies with a number of FERC requirements related to both regional and local area transmission planning. This section describes several of these processes and forums important to Avista transmission planning.

Local Transmission Planning Report

Avista's Local Planning Report is the product of both a Local Transmission Planning Process and an annual Planning Assessment. Attachment K to Avista's Open Access Transmission Tariff (OATT) FERC Electric Volume No. 8 outlines the Local Transmission Planning Process. This process identifies Single System Projects needed to mitigate future reliability and load-service requirements for the Avista Transmission System.

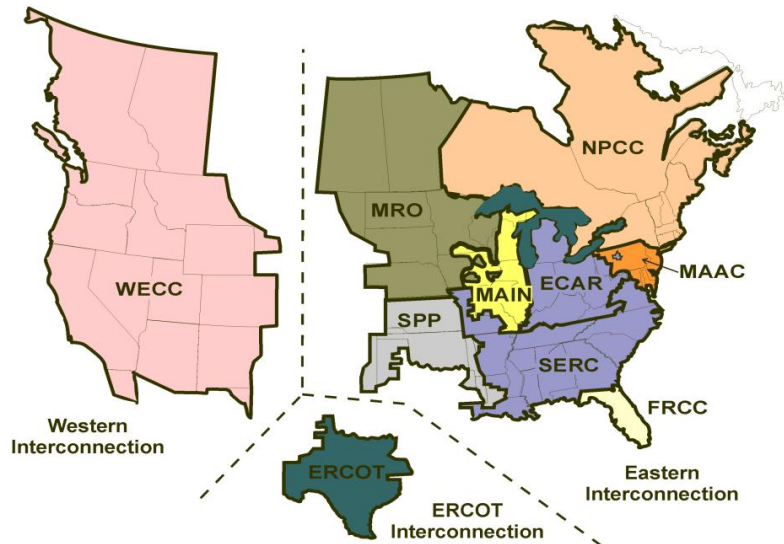
The annual Planning Assessment is outlined by North American Electric Reliability Corporation (NERC) Reliability Standard TPL-001-4. The Planning Assessment determines where the system may have the inability to meet performance requirements as defined in the NERC Reliability Standards and identifies Corrective Action Plans addressing how to meet the performance requirements. The Planning Assessment includes performing steady state contingency analysis, voltage collapse, and transient technical studies.

Development of the Local Planning Report supports compliance with the Local Transmission Planning Process and applicable NERC Reliability Standards. The Local Planning Report, with its associated collection of Single System Projects and Corrective Action Plans, provides a ten-year Transmission System expansion plan by including all Transmission System Facility improvements.

Western Electricity Coordinating Council

The Western Electricity Coordinating Council (WECC) is the group responsible for promoting Bulk Electric System reliability, compliance monitoring and enforcement in the Western Interconnection. This group also facilitates the development of reliability standards and helps coordinate operating and planning amongst its membership. WECC is the largest geographic territory of the Regional Entities with delegated authority from the NERC and the FERC. The WECC area covers all or parts of 14 Western states, the provinces of Alberta and British Columbia, and the northern section of Baja, Mexico.¹

¹ <https://www.wecc.biz/Pages/About.aspx>



NERC Interconnection Map

Peak Reliability

Peak Reliability (Peak) began as a result of the bifurcation of WECC into a regional entity (WECC) and a Reliability Coordinator (Peak). The bifurcation of WECC received final approval from the FERC on February 12, 2014. Peak, a company wholly independent of WECC, performs the Reliability Coordinator and Interchange Authority functions for the footprint of those transmission systems within the Western Interconnection with whom it has executed a contract for services.²

Northwest Power Pool

Avista is a member of the Northwest Power Pool (NWPP). Formed in 1942 when the federal government directed utilities to coordinate operations in support of wartime production. NWPP committees include the Operating Committee, the Reserve Sharing Group Committee, the Pacific Northwest Coordination Agreement (PNCA) Coordinating Group, and the Transmission Planning Committee (TPC). The TPC exists as a forum addressing northwest electric planning issues and concerns, including a structured interface with external stakeholders.

The NWPP serves as a northwest electricity reliability forum, helping to coordinate present and future industry restructuring, promoting member cooperation to achieve reliable system operation, coordinating power system planning, and assisting the transmission planning process. NWPP membership is voluntary and includes the major generating utilities serving the Northwestern U.S., British Columbia and Alberta. Smaller, principally non-generating, utilities participate in an indirect manner through their member systems, such as the BPA.

² <https://www.peakrc.com/aboutus/Pages/History.aspx>

ColumbiaGrid

ColumbiaGrid began on March 31, 2006, and its membership includes Avista, BPA, Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light, Snohomish County PUD, and Tacoma Power. ColumbiaGrid aims to enhance and improve the operational efficiency, reliability, and planned expansion of the Pacific Northwest transmission grid. Consistent with FERC requirements issued in Orders 890 and 1000, ColumbiaGrid provides an open and transparent process to develop sub-regional transmission plans, assess transmission alternatives (including non-wires alternatives), and provides a decision-making forum and cost-allocation methodology for new transmission projects.

Northern Tier Transmission Group

The Northern Tier Transmission Group (NTTG) formed on August 10, 2007. NTTG members include Deseret Power Electric Cooperative, Idaho Power, Northwestern Energy, PacifiCorp, Portland General Electric, and Utah Associated Municipal Power Systems. These members rely upon the NTTG committee structure to meet FERC's coordinated transmission planning requirements. Avista's transmission network has a number of strong interconnections with three of the six NTTG member systems. Due to the geographical and electrical positions of Avista's transmission network related to NTTG members, Avista participates in the NTTG planning process to foster collaborative relationships with our interconnected utilities.

BPA Transmission System

BPA owns and operates over 15,000 miles of transmission-level facilities and owns the largest portion of the region's high voltage (230 kV or higher) transmission grid. Avista uses BPA transmission to transfer output from its remote generation sources to Avista's transmission system, including its share in Colstrip Units 3 and 4, Coyote Springs 2, and its WNP-3 settlement contract. Avista also contracts with BPA for Network Integration Transmission Service to transfer power to several delivery points on the BPA system to serve portions of Avista's retail native load and for Point-to-Point Transmission Service to sell surplus power to other parties in the region.

Avista participates in BPA transmission rate case processes and in BPA's Business Practices Technical Forum to ensure charges remain reasonable and support system reliability and access. Avista also works with BPA and other regional utilities to coordinate major transmission facility outages.

Future electric grid expansion will likely require the development of new transmission assets by federal and other entities. BPA is developing several transmission projects in the Interstate-5 corridor and in southern Washington to maintain reliable system operation and integrate regional wind generation resources. Each project has the potential to increase BPA transmission rates and thereby affect Avista's costs.

Avista's Transmission System

Reliability and Operations

Avista plans and operates its transmission system pursuant to applicable criteria established by the NERC, WECC, and NWPP. Through involvement in WECC and

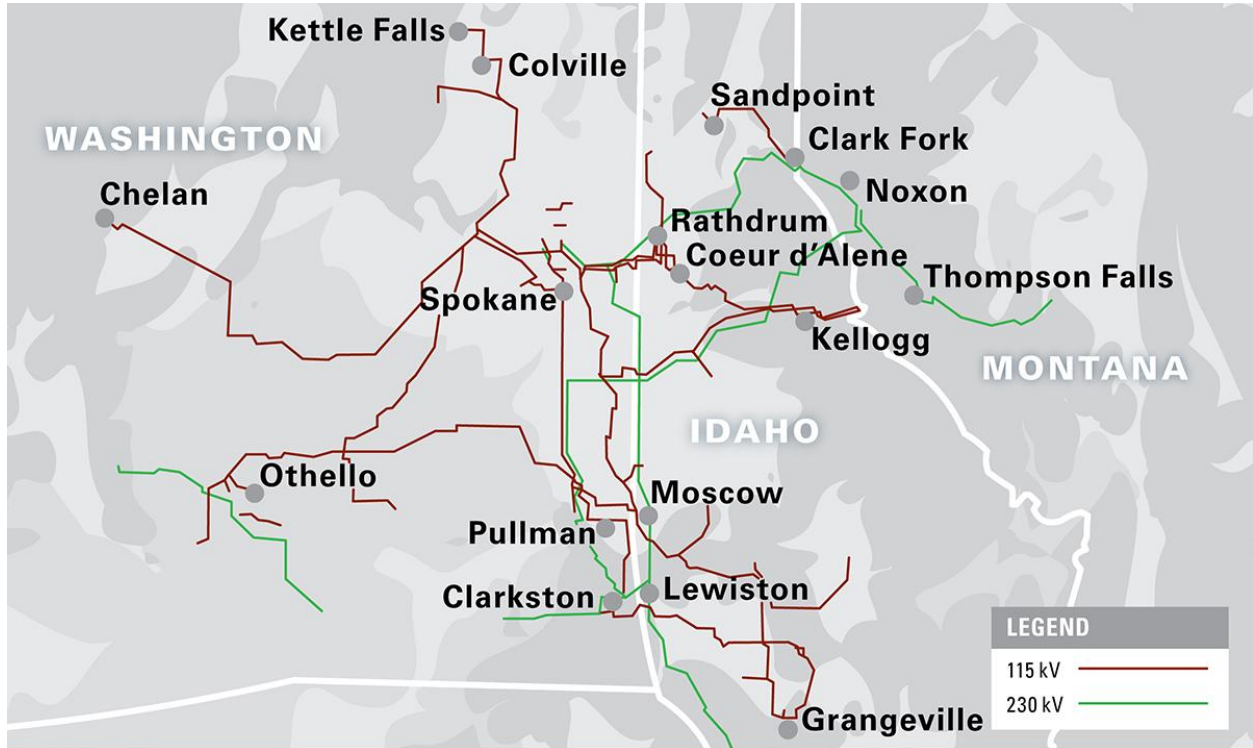
NWPP standing committees and sub-committees, Avista participates in developing new and revised criteria while coordinating transmission system planning and operation with neighboring systems. Mandatory reliability standards promulgated through FERC and NERC subject Avista to periodic performance audits through these regional organizations.

Avista's transmission system provides reliable and efficient transmission service from the company's portfolio of power resources to its retail native load customers. Some of Avista's transmission system is unsubscribed for retail load service. Excess transmission capacity that is unreserved or needed for native load service is available to other parties pursuant to FERC regulations and the terms and conditions of Avista's OATT. Avista markets its unsold surplus transmission capacity on a long-term (greater than one year) basis and short-term basis to other parties as part of Avista's overall resource optimization efforts.

System Topology

Avista owns and operates over 2,200 miles of electric transmission facilities. This includes approximately 685 miles of 230 kV line and 1,527 miles of 115 kV line. Figure 8.1 illustrates Avista's transmission system. Avista owns an 11 percent interest in 495 miles of double circuit 500 kV lines between Colstrip and Townsend, Montana. The transmission system includes switching stations and high-voltage substations with transformers, monitoring and metering devices, and other system operation-related equipment. The system transfers power from Avista's generation resources to its retail load centers. Avista has network interconnections with the following utilities:

- BPA
- Chelan County PUD
- Grant County PUD
- Idaho Power Company
- NorthWestern Energy
- PacifiCorp
- Pend Oreille County PUD

Figure 8.1: Avista Transmission Map

Transmission System Information

Since the 2013 IRP, Avista completed several transmission projects to support new generation, increase reliability, and provide system voltage support including:

Transmission Line Upgrades

- Chelan – Stratford 115 kV: line reconductor
- Garden Springs to Hallet & White section of South Fairchild 115 kV Tap: line reconductor
- Irvin – Opportunity 115 kV line: new line section
- Burke to Montana border section of Burke – Thompson Falls A&B 115 kV lines
- Southern half of Bronx – Cabinet Gorge 115 kV line: line reconductor

Stations

- Stratford 115 kV – station rebuild
- Odessa 115 kV – capacitor bank installed
- Lancaster 230 kV station interconnection
- Lind 115 kV – capacitor bank installed
- Moscow 230/115 kV – station rebuild
- Blue Creek 115 kV – station rebuild
- Beck Road 115 kV – new station
- Clearwater 115 kV – station upgrade
- Lewiston Mill Road 115 kV – new station
- North Lewiston 115 kV Distribution Substation

Planned Projects

Avista plans to complete several reconductor projects throughout its transmission system over the next decade. These projects focus on replacing decades-old small conductor with new conductor capable of greater load-carrying capability and providing more efficient (i.e., fewer electrical losses) service. The following list gives an example of planned transmission projects:

Transmission Lines

- Addy – Devil’s Gap 115 kV
- Bronx – Cabinet Gorge 115 kV (2011-2017)
- Burke – Pine Creek 115 kV (2012-2015)
- Benton – Othello 115 kV (2014-2016)
- Devils Gap – Lind 115 kV (2014-2016)
- Devil’s Gap – Stratford 115 kV (2019)
- Coeur d’Alene – Pine Creek 115 kV (2014-2018)
- Spokane Valley Reinforcement Project (2011-2016)

Stations

- Irvin 115 kV Switching Station [Spokane Valley Reinforcement] (2016)
- Millwood 115 kV Distribution Substation [Spokane Valley Reinforcement] (2013)
- Harrington 115 kV Distribution Substation (2014)
- Noxon 230 kV Switching Station (2013-2018)
- 9th & Central 115 kV Distribution Substation (2015)
- Greenacres 115 kV Distribution Substation (2014)
- Beacon 230/115 kV Station Partial Rebuild (2017+)
- Saddle Mountain 115 kV Station (new, 2018)
- Westside 230/115 kV transformer (2016)

IRP Generation Interconnection Options

Table 8.1 shows the projects and cost information for each of the IRP-related locational studies where Avista evaluated new generation options. The study details for each project, including cost and integration options, are in Appendix X. These studies provide a high-level view of the generation interconnect requests, and are similar to third-party feasibility studies performed under Avista’s generator interconnection process. Because the FERC does not allow complete charging of integration costs benefiting the overall transmission system to the new generator, it is unlikely that the entirety of these figures will actually be charged to a new interconnected generator. There are cost ranges for each proposed generation project because there are alternate solutions to reinforce the transmission system to support the proposed interconnected generation levels.

Table 8.1: 2015 IRP Requested Transmission Upgrade Studies

Project	Size (MW)	Cost Estimate (Millions) ³
Kootenai County	100	\$16 to \$20.1
Kootenai County	350	\$47.2
Rathdrum Station (115 kV)	26	\$2.8 to \$10.9
Rathdrum Station (115 kV)	50	\$10.7 to \$18.7
Rathdrum Station (115 kV)	200	\$10.3 to \$48.5
Rathdrum Station (230 kV)	50	\$7 to \$16.8
Rathdrum Station (230 kV)	200	\$15.5 to \$21.5
Thornton Station	100	\$0.4
Othello Station	25	\$2.0
Northeast Station (Spokane)	10	\$0.0
Kettle Falls Station	10	\$0.0
Long Lake	68	\$19.7
Monroe Street	80	\$7.0

Large Generation Interconnection Requests

Third-party generation companies or independent power producers may make requests for transmission studies to understand the cost and timelines for integrating potential new generation projects. These projects follow a strict FERC process and include three study steps to estimate the feasibility, system impact, and facility requirement costs for project integration. Each of these studies provides the requester with a different level of project costs, and the studies typically take at least one year to complete. After this process is completed, a contract offer to integrate the project may occur and negotiations can begin to enter into a transmission agreement if necessary. Each of the proposed projects becomes public to some degree, but customer names remain anonymous. **Error! Reference source not found.** lists the current major projects remaining in Avista's interconnection queue.

Table 8.2: Third-Party Large Generation Interconnection Requests

Project	Size (MW)	Type	Interconnection
#43	150	Wind	Lind 115 kV Substation
#44	600	Pumped Hydro	Colstrip 500 kV System

Distribution System Efficiencies

Avista's distribution system consists of approximately 330 feeders covering 30,000 square miles, ranging in length from three to 73 miles. For rural distribution, feeder lengths vary widely to meet the electrical loads resulting from the startup and shutdown business swings of the timber, mining and agriculture industries.

In 2008, an Avista system efficiencies team of operational, engineering, and planning staff developed a plan to evaluate potential energy savings from Transmission and Distribution system upgrades. The first phase summarized potential energy savings

³ Cost estimates are in 2014 dollars and use engineering judgment with a 50 percent margin for error.

from distribution feeder upgrades. The second phase, beginning in the summer of 2009, combined transmission system topologies with right sizing distribution feeders to reduce system losses, improve system reliability, and meet future load growth.

The system efficiencies team evaluated several efficiency programs to improve both urban and rural distribution feeders. The programs consisted of the following system enhancements:

- Conductor losses;
- Distribution transformers;
- Secondary districts; and
- Volt-ampere reactive compensation.

The analysis combined energy losses, capital investments, and reductions in operations and maintenance (O&M) costs resulting from the individual efficiency programs under consideration on a per feeder basis. This approach provided a means to rank and compare the energy savings and net resource costs for each feeder.

Grid Modernization

Following the 2009 study, a second study conducted in 2013, assessed the benefits of distribution feeder automation for increased efficiency, operability, and reduced generation savings. The Grid Modernization Program combines the work from these system performance studies and provides Avista's customers with refreshed system feeders with new automation capabilities across Avista's distribution system.

The Distribution Grid Modernization Program's charter criterion uses a holistic approach to the way Avista addresses each project. This program integrates work performed under various Avista operational initiatives including the Wood Pole Management Program, the Transformer Change-out Program, the Vegetation Management Program and the Feeder Automation Program. The work of the Distribution Grid Modernization Program includes replacing undersized and deteriorating conductors, and replacing failed and end-of-life infrastructure materials including wood poles, cross arms, fuses and insulators. The program addresses inaccessible pole alignment, right-of-way, undergrounding and clear zone compliance issues for each feeder section as well as regular maintenance work including leaning poles, guy anchors, unauthorized attachments and joint-use management. This systematic overview enables Avista to cost-effectively deliver a modernized and robust electric distribution system that is more efficient, easier to maintain and more reliable for our customers.

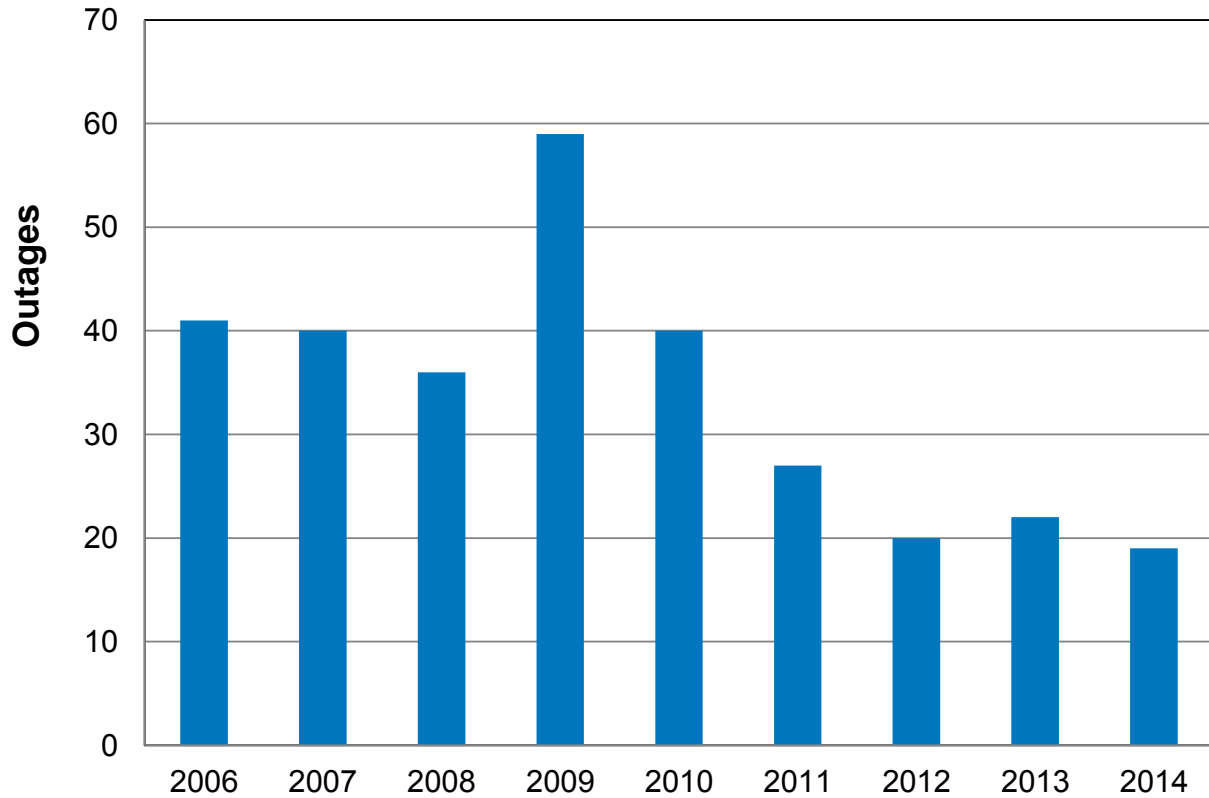
Figure 8.2 illustrates the reliability advantages and reasons for the Grid Modernization Program. Prior to the 2009 feeder rebuild pilot program, 39 outages per year were expected. After the project, outages declined significantly to an average of 20 unique outages. In the past two years, only one outage occurred. The program is in its second year of regular funding and is realizing its intended purpose of capturing energy savings through reduced losses, increased reliability and decreased O&M costs. Table 8.2 shows the feeders addressed through this program to date and projects currently in

progress. The total energy savings from both re-conductor and transformer efficiencies for all completed feeders is approximately 7,479MWh annually.

Table 8.3: Completed and Planned Feeder Rebuilds

Feeder	Area	Year Complete	Annual Energy Savings (MWh)
9CE12F4	Spokane, WA (9 th & Central)	2009	601
BEA12F1	Spokane, WA (Beacon)	2012	972
F&C12F2	Spokane, WA (Francis & Cedar)	2012	570
BEA12F5	Spokane, WA (Beacon)	2013	885
WIL12F2	Wilbur, WA	2013	1,403
CDA121	Coeur d’Alene, ID	2013	438
OTH502	Othello, WA	2014	21
RAT231	Rathdrum, ID	2014	0
M23621	Moscow, ID	2015	413
WIL12F2	Wilbur, WA	2015	1,403
WAK12F2	Spokane, WA (Waikiki)	2016	175
RAT233	Rathdrum, ID	2019	471
SPI12F1	Northport, WA (Spirit)	2019	127
Total			7,479

Figure 8.2: Spokane’s 9th and Central Feeder (9CE12F4) Outage History



9. Generation Resource Options

Introduction

Several generating resource options are available to meet future load growth. Avista can upgrade existing resources, build new facilities, or contract with other energy companies for future delivery. This section describes resources Avista considered in the 2015 IRP to meet future needs. The new resources described in this chapter are mostly generic. Actual resources may differ in size, cost, and operating characteristics due to siting or engineering requirements.

Section Highlights

- Only resources with well-defined costs and operating histories are options to meet future resource needs.
- Wind, solar and hydroelectric upgrades represent renewable options available to Avista.
- Upgrades to Avista's Spokane and Clark Fork River facilities are included as resource options.
- Future requests for proposals might identify different technologies.
- Renewable resource costs assume no extensions of current state and federal incentives.

Assumptions

Avista only considers commercially available resources with well-known costs, availability and generation profiles priced as if Avista developed and owned the generation for the Preferred Resource Strategy (PRS) analyses. These resources include natural gas-fired combined cycle combustion turbines (CCCT), simple cycle combustion turbines (SCCT), natural gas-fired reciprocating engines, large-scale wind, storage, photovoltaic solar, hydroelectric upgrades and thermal unit upgrades. Several other resource options described later in the chapter were not included in the PRS analysis, but discussed as potential resource options that may respond to a future RFP. This IRP excludes potential contractual arrangements with other energy companies as an option for this plan, but these types of arrangements may become an option when Avista seeks new resources through a RFP.

Levelized costs include transmission costs as described in Chapter 8 – Transmission & Distribution Planning. Nominal levelized costs result from discounting nominal cash flows by the 6.58 percent-weighted average cost of capital approved by the states of Idaho and Washington. All costs in this section are in 2015 nominal dollars unless otherwise noted.

Certain renewable resources are eligible to receive federal and state tax incentives. Solar tax benefits fall by two-thirds after 2016 and the production tax credit (PTC) for wind and other renewables will expire unless renewed. These incentives, to the extent they are available, are included in IRP modeling. The IRP amortizes investment tax

credits over the life of the asset per regulatory accounting rules. Third-party developers who do not follow utility accounting rules may be able to offer lower costs by transferring the tax benefits to utility customers earlier in the contract term.

Avista developed the 2015 IRP costs and plant characteristics from a combination of sources. The natural gas-fired plants use Thermoflow's operating characteristics and plant costs. Renewable resources use a combination of observed costs, estimates provided by developers, and internal studies.

Levelized resource cost calculations illustrate the costs of different generator types for comparison. These calculations only show the cost of energy if the plants are generating as much as possible. In reality, plants do not operate to their maximum generating potential. Therefore costs are broken up between energy costs in \$/MWh and capacity costs in \$/kW-year to illustrate the true cost of the facilities when compared to one another. Without this cost break down, peakers would appear more expensive than combined cycle plants, even though peakers are lower cost if the load serving entity can supplement its output with lower-cost market purchases. This method fairly compares renewable resources to the energy component of natural gas-fired resources. For this reason, levelized costs in the plan are only shown for renewable resources without capacity. All other resources show levelized capacity with energy costs broken out.

The following cost items are in the levelized cost calculations for both the capacity and energy cost components.

- *Capital Recovery and Taxes*: Depreciation, return of and on capital, federal and state income taxes, property taxes, insurance, and miscellaneous charges such as uncollectible accounts and state taxes for each of these items pertaining to a generation asset investment.
- *Allowance for Funds Used During Construction (AFUDC)*: The cost of money associated with construction payments made on a generation asset during construction.
- *Federal Tax Incentives*: The federal tax incentive in the form of a PTC, a cash grant, or an ITC, attributable to qualified generation options.
- *Fuel Costs*: The average cost of fuel such as natural gas, coal, or wood, per MWh of generation. Additional fuel price details are included in the Market Analysis section.
- *Fuel Transport*: The cost to transport fuel to the plant, including pipeline capacity charges.
- *Fixed Operations and Maintenance (O&M)*: Costs related to operating the plant such as labor, parts, and other maintenance services that are not based on generation levels.
- *Variable O&M*: Costs per MWh related to incremental generation.

- *Transmission*: Includes depreciation, return on capital, income taxes, property taxes, insurance, and miscellaneous charges such as uncollectible accounts and state taxes for each of these items pertaining to transmission asset investments needed to interconnect the generator and/or third party transmission charges.
- *Other Overheads*: Includes miscellaneous charges for non-capital expenses such as un-collectibles, excise taxes and commission fees.

The tables at the end of this section show incremental capacity, heat rates, generation capital costs, fixed O&M, variable costs, and peak credits for each resource option.¹ Figure 9.2 compares the levelized costs of different resource types. Avista relies on a variety of sources including the NPCC, press releases, regulatory filings, internal analysis, and Avista's experiences with certain technologies for its resource assumptions.

Natural Gas-Fired Combined Cycle Combustion Turbine

Natural gas-fired CCCT plants provide a reliable source of both capacity and energy for a relatively modest capital investment. The main disadvantage of a CCCT is generation cost volatility due to reliance on natural gas, unless utilizing hedged fuel prices. CCCTs in this IRP are "one-on-one" (1x1) configurations, using hybrid air/water cooling technology and zero liquid discharge. The 1x1 configuration consists of a single gas turbine with a heat recovery steam generator (HRSG) and a duct burner to gain more generation from the steam turbine. The plants have nameplate ratings between 250 MW and 350 MW each depending on configuration and location. A 2x1 CCCT plant configuration is possible with two turbines and one HRSG, generating up to 600 MW. Avista would need to share the plant with one or more utilities to take advantage of the modest economies of scale and efficiency of a 2x1-plant configuration due to its large size relative to Avista's needs.

Cooling technology is a major cost driver for CCCTs. Depending on water availability; the lower cost wet cooling technology could be an option, similar to Avista's Coyote Springs 2 plant. However, if no water rights are available, a more capital-intensive and less efficient air-cooled technology may be used. For this IRP, Avista assumes some water rights could be available, but only enough for a hybrid cooling system utilizing the benefits of evaporative (wet) and convective (air) cooling.

The most likely CCCT configuration for Avista is a 285-340 MW hybrid-cooled plant located in the Idaho portion of Avista's service territory, mainly due to Idaho's lack of an excise tax on natural gas consumed for power generation, a lower sales tax rate relative to Washington, and no taxes on the emission of carbon dioxide.² Potential combined cycle plant sites would likely be on the Avista transmission system to avoid third-party

¹ Peak credit is the amount of capacity a resource contributes at the time of system peak load.

² Washington state applies an excise tax on all fuel consumed for wholesale power generation, the same as it does for retail natural gas service, at approximately 3.875 percent. Washington also has higher sales taxes and has carbon dioxide mitigation fees for new plants.

wheeling rates. Another advantage of siting a CCCT resource in Avista's Idaho service territory is access to low-cost natural gas on the GTN pipeline.

This IRP models two types of combined cycle plants, first a smaller modern 285 MW machine, and a larger advanced 341 MW plant. Avista reviewed many other CCCT technologies and sizes, and selected these plants due to their being common technologies used in the Northwest. Where Avista pursues a combined cycle plant, a request for proposals (RFP) will allow analysis of other CCCT technologies and sizes. The smaller machine's heat rate is 6,720 Btu/kWh³ in 2016. The larger machine is 6,631 Btu/kWh. The plants include duct firing for seven percent of rated capacity at a heat rate of 7,912 and 7,843 Btu/kWh.

The IRP includes a three percent forced outage rate for CCCTs and 14 days of annual plant maintenance. The smaller plant can back down to 62 percent of nameplate capacity, while the larger plant can ramp down to 30 percent of nameplate capacity. The maximum capability of each plant is highly dependent on ambient temperature and plant elevation.

The anticipated capital costs for the two CCCTs, located in Idaho on Avista's transmission system with AFUDC on a greenfield site, is \$1,177 per kW for the smaller machine and \$1,120 per kW (2016\$) for the larger machine. These estimates exclude the cost of transmission and interconnection. Table 9.1 shows levelized plant cost assumptions split between capacity and energy. The costs include firm natural gas transportation, fixed and variable O&M, and transmission. Table 9.2 summarizes key cost and operating components of the natural gas-fired resource options.

Natural Gas-Fired Peakers

Natural gas-fired SCCTs and reciprocating engines, or peaking resources, provide low-cost capacity and are capable of providing energy as needed. Technological advances allow the plants to start and ramp quickly, providing regulation services and reserves for load following and to integrate variable resources such as wind and solar.

The IRP models frame, hybrid-intercooled, reciprocating engines, and aero-derivative peaking resource options. The peaking technologies have different load following abilities, costs, generating capabilities, and energy-conversion efficiencies. Table 9.1 shows cost and operational estimates based on internal engineering estimates. All peaking plants assume 0.5 percent annual real dollar cost decrease and forced outage and maintenance rates. The levelized cost for each of the technologies is in Table 9.1.

Firm fuel transportation for natural gas-fired generation is an electric reliability issue with FERC, and is the subject of regional and extra-regional forums. For this IRP, Avista continues to assume it will not procure firm natural gas transportation for peaking resources. Firm transportation could be necessary where pipeline capacity becomes scarce during utility peak hours; however, pipelines near potential sites being modeled

³ Heat Rates shown are the higher heating value.

are not fully subscribed or expected to be subscribed in the near future to levels high enough to warrant the costs of having a firm supply. Avista continues to monitor natural gas transportation options for its portfolio. Where non-firm natural gas transportation options become inadequate for system reliability, three options exist: contracting for firm natural gas transportation rights, on-site oil or liquefied natural gas storage.

Table 9.1: Natural Gas-Fired Plant Levelized Costs per MWh

Plant Name	Variable \$/MWh	Winter \$/kW-Yr	Winter Capacity (MW)
Advanced Large Frame CT	\$58	\$130	220
Modern Large Frame CT	\$57	\$124	186
Advanced Small Frame CT	\$64	\$151	102
Frame/Aero Hybrid CT	\$46	\$164	106
Small Reciprocating Engine Facility	\$41	\$159	93
Modern Small Frame CT	\$59	\$188	49
Aero CT	\$54	\$202	45
1 x 1 Advanced CCCT	\$37	\$211	362
1 x 1 Modern CCCT	\$37	\$210	306

Table 9.2: Natural Gas-Fired Plant Cost and Operational Characteristics

Item	Capital Cost with AFUDC (\$/kW)	Fixed O&M (\$/kW - yr)	Heat Rate (Btu/k Wh)	Variable O&M (\$/MWh)	Units at Site	ISO Unit Size (MW)	Total Project Size (MW)	Total Cost (Mil\$)
Advanced Large Frame CT	\$638	\$2.08	9,931	\$3.65	1	203	203	\$129
Modern Large Frame CT	\$667	\$2.08	10,007	\$2.60	1	170	170	\$114
Advanced Small Frame CT	\$853	\$3.13	11,265	\$2.60	1	96	96	\$82
Frame/Aero Hybrid CT	\$1,016	\$3.13	8,916	\$3.13	1	101	101	\$103
Small Reciprocating Engine Facility	\$546	\$8.33	7,700	\$3.13	10	9.3	93	\$51
Modern Small Frame CT	\$1,265	\$4.17	10,252	\$2.60	1	45	45	\$57
Aero CT	\$1,316	\$6.25	9,359	\$2.60	1	42	42	\$56
1 x 1 Modern CCCT	\$1,120	\$18.75	6,771	\$3.91	1	341	341	\$382
1 x 1 Advanced CCCT	\$1,177	\$15.63	6,845	\$3.13	1	286	286	\$336

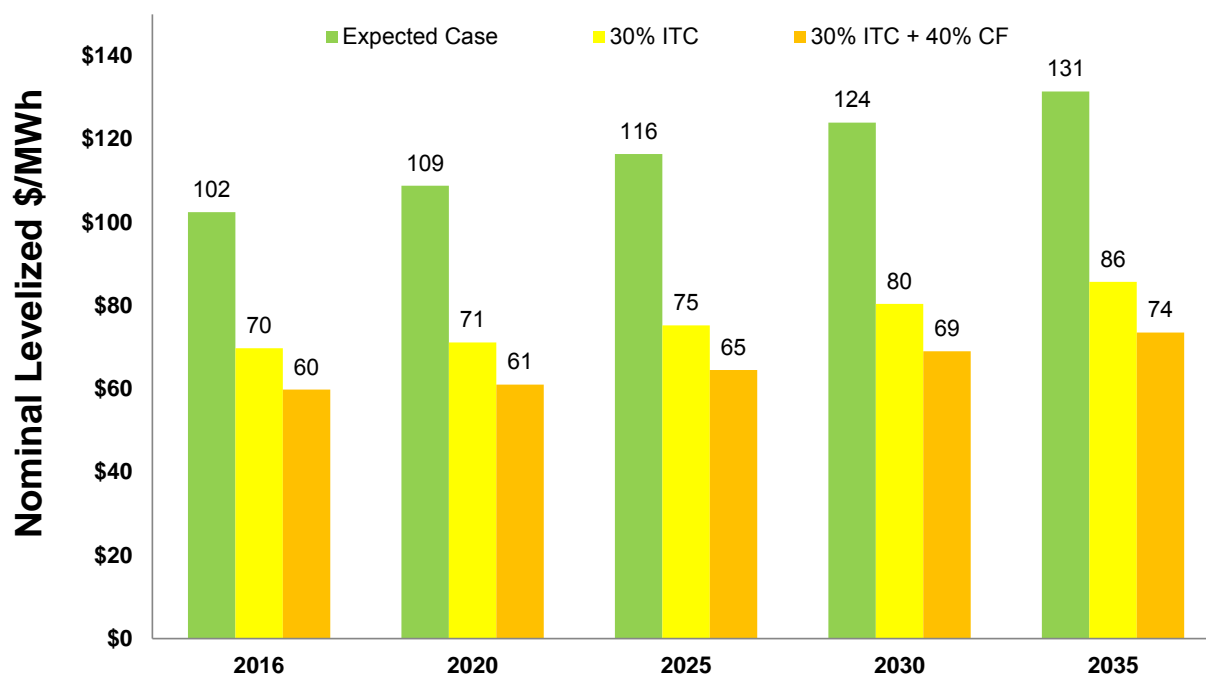
Wind Generation

Governments promote wind generation with tax benefits, renewable portfolio standards, carbon emission restrictions, and stricter controls on existing non-renewable resources. The 2013 “Fiscal Cliff” deal in the U.S. Congress extended the PTC for wind through December 31, 2013, with provisions allowing projects to qualify after 2013 if construction began in 2013. This IRP does not assume the PTC extends beyond this term, but does assume the preferential 5-year tax depreciation remains.

Wind resources benefit from having no emissions profile or fuel costs, but they are not dispatchable, have high capital and labor costs on a per-MWh basis when compared to most other resource options. Wind capital costs in 2016, including AFUDC are \$2,234 per kW, with annual fixed O&M costs of \$46 per kW-yr. Fixed O&M includes indirect charges to account for the inherent variation in wind generation, oftentimes referred to as wind integration. The cost of wind integration depends on the penetration of wind in Avista’s balancing authority, and the market price of power. Wind integration in this IRP is \$4.30 per kW-year in 2016. These estimates come from Avista’s experience in the wind market at the time of the IRP and results from Avista’s 2007 Wind Integration Study.

Wind capacity factors in the Northwest range between 25 and 40 percent depending on project location. This plan assumes Northwest wind has a 35 percent average capacity factor. A statistical method, based on regional wind studies, derives a range of annual capacity factors depending on the wind regime in each year (see stochastic modeling assumptions for more details). The expected capacity factor can have a dramatic impact on the levelized cost of a wind project. For example, a 30 percent capacity factor site could be \$30 per MWh higher than a 40 percent capacity factor site holding all other assumptions equal.

As discussed above, the levelized costs change substantially due to capacity factor, but it changes more due to tax incentives. Figure 9.1 shows the nominal levelized price with different start dates, capacity factor, and the availability of the 30 percent federal investment tax credit. For a plant installed in 2016, the estimated “all-in” cost is \$102 per MWh, but if it had the ITC, the direct cost to customers would be \$70/MWh. It is possible to decrease the price per MWh using accounting methods allowed for independent power producers. This plan assumes wind resources selected in the PRS include the 20 percent REC apprenticeship adder for the EIA. This adder applies only for Washington state compliance with the EIA, requiring 15 percent of the construction labor to be from apprentices through a state-certified apprenticeship program to qualify.

Figure 9.1: Northwest Wind Project Levelized Costs per MWh

Solar Photovoltaic

Solar photovoltaic generation technology costs have fallen substantially in the last several years partly due to low-cost imports, and from renewable portfolio standards and government tax incentives, both inside and outside of the United States. Even with large cost reductions, Avista's analysis shows that solar still is uneconomic for winter-peaking utilities in the Northwest when compared to other renewable and non-renewable generation resource options. This is due to its low capacity factor and lack of on-peak output during winter peak demand periods. Solar provides predictable daytime generation complementing the loads of summer-peaking utilities, though panels typically do not produce at full output during these times.

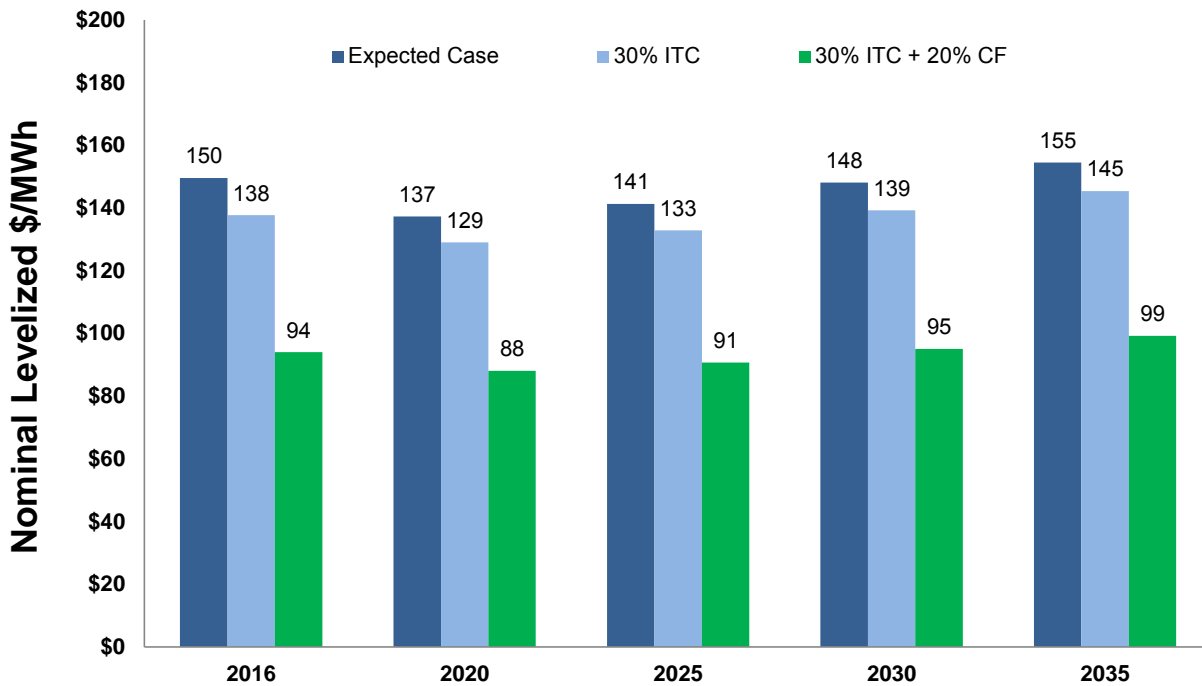
Solar provides no wintertime on-peak capability in the Northwest, as winter peaking typically occurs at night. If a substantial amount of solar is added to a summer peaking utility, such as in the Desert Southwest, the peak hour recorded prior to the solar installation will be reduced, but the net of solar peak will be shifted toward sundown when the solar facility witnesses a substantial output reduction. Table 9.3 presents the peak credit by month with different amounts of solar using output from the Rathdrum Solar Project. This table illustrates that solar does not reduce Avista's winter peak, reduces the summer peak, and is less effective at reducing peak as more solar is installed.

Table 9.3: Solar Capacity Credit by Month

Month	5 MW	25 MW	50 MW	100 MW	150 MW	200 MW	300 MW
Jan	0%	0%	0%	0%	0%	0%	0%
Feb	0%	0%	0%	0%	0%	0%	0%
Mar	0%	0%	0%	0%	0%	0%	0%
Apr	28%	15%	11%	8%	6%	5%	3%
May	46%	46%	37%	26%	17%	13%	9%
Jun	39%	39%	36%	31%	25%	22%	19%
Jul	52%	49%	45%	43%	33%	27%	22%
Aug	40%	40%	40%	34%	32%	30%	24%
Sep	0%	0%	0%	0%	0%	0%	0%
Oct	0%	0%	0%	0%	0%	0%	0%
Nov	0%	0%	0%	0%	0%	0%	0%
Dec	0%	0%	0%	0%	0%	0%	0%

Solar thermal technologies can produce capacity factors as much as 30 percent higher than photovoltaic solar projects, and can store energy for several hours for later use in reducing peak loads. However, solar thermal technologies do not lend themselves well for the northwestern solar irradiance due to their lack of significant generation in the winter and higher overall installation and operation costs; therefore, only photovoltaic systems are considered for this plan. Utility-scale solar capital costs in the IRP, including AFUDC, are \$1,500 per kW for fixed panel photovoltaic and \$1,600 per kW for single axis tracking projects. A well-placed utility-scale single axis tracking photovoltaic system located in the Pacific Northwest would achieve a capacity factor of approximately 18 percent the first year and a fixed panel capacity factor of 15 percent. This plan de-rates the available solar generation by one-half percent each year for panel degradation.

Figure 9.2 shows the levelized costs of solar resources, including federal incentives, on-line dates, and capacity factors. These costs reflect Avista's cost of installation, and do not reflect the costs an independent power producer could develop the project. Even with declining prices, solar will continue to struggle as a cost-competitive resource in the Northwest because of its high installation costs and lack of generation to meet winter peak system requirements. One advantage for solar in the state of Washington is for plants with less than five megawatts of capacity, each megawatt-hour counts as two RECs towards Washington's EIA. Washington state also offers substantial financial incentives for consumer-owned solar. This IRP does not explicitly consider consumer-owned solar, as the overall incentives are not available to utilities and would otherwise be capped at a level that would not affect this plan. Consumer-owned solar counts in reductions in Avista's retail load forecast.

Figure 9.2: Solar Nominal Levelized Cost (\$/MWh)

Energy Storage

Increasing amounts of solar and wind generation on the electric grid makes energy storage technologies attractive from an operational perspective. The technologies could be an ideal way to smooth out renewable generation variability and assist in load following and regulation needs. Storage technology could help meet peak demand, provide voltage support, relieve transmission congestion, take power during over supply events, and supply other non-energy needs for the system. Over time, storage may become an important part of the nation's electric grid. Several storage technologies currently exist, including pumped hydroelectric, lead-acid batteries, lithium ion batteries, flow batteries, flywheels, and compressed air.

There are many challenges with storage technology. First, existing technologies consume a significant amount of electricity relative to their output through conversion losses. Second, the cost of storage is high, at near \$3,455 per kW. This cost is nearly three times the initial cost of a natural gas-fired peaking plant that can provide many, but not all, of the same capabilities without the electricity consumption characteristics of storage. Storage costs should decline over time, and Avista continues to monitor the technologies as part of the IRP process. Third, the current scale of most storage projects is relatively small, limiting their applicability to utility-scale deployment. Fourth, early adoption of technology can be risky, with industry examples of battery fires and financial issues.

To learn more about storage technology and its potential, Avista recently installed a vanadium flow battery in Pullman, Washington. This installation, known as the Turner Energy Storage Project, will provide insight about the technology's reliability, its

potential benefit to the transmission and/or distribution systems, as well as its potential power supply benefits. The battery has one megawatt of power capability and three megawatt-hours of energy storage. A Washington State grant for research and development partially funded this storage project.



Turner Energy Storage Project, Pullman, WA

The Northwest might be slower in adopting storage technology relative to other regions in the country. The Northwest hydroelectric system already contains a significant amount of storage relative to the rest of the country. However, as more capacity consuming renewables enter the electric grid, new storage technologies might play a significant role in meeting the need for additional operational flexibility if upfront capital costs and operational losses fall.

In addition to capital costs, storage projects cost considers operations and maintenance costs. This plan assumes operating costs will be \$20 per kW-year and recharge costs use off-peak Mid-Columbia energy costs. Levelized costs for storage projects are highly inaccurate as storage projects do not create megawatt hours; in fact, they consume megawatt hours with 15 to 20 plus percent operating losses. The nominal levelized capacity cost for storage is approximately \$580 per kW-year and energy costs \$35/MWh.

Other Generation Resource Options

A thorough IRP also analyzes generation resources not readily available in large quantities, not commercially available, not economically ready for utility-scale development, or prohibited by state policy. Several emerging technologies, like energy storage, are attractive from an operational or environmental perspective, but are significantly higher-cost than other technologies providing similar capabilities at lower cost. The resources include biomass, geothermal, co-generation, nuclear, landfill gas, and anaerobic digesters. This plan does not model these resource options, but

information regarding their future opportunities is in the NPPC cost estimates for these projects in the Seventh Power Plan.

Failure to be included in the PRS is not the last opportunity for these technologies to be part of Avista's future resource portfolio. The resources will compete with those included in the PRS through Avista's RFP processes. RFP processes identify competitive technologies that might displace resources otherwise included in the IRP strategy. Another possibility is acquisition through federal PURPA mandates. PURPA provides non-utility developers the ability to sell qualifying power to Avista at set prices and terms.⁴

Woody Biomass Generation

Woody biomass generation projects use waste wood from lumber mills or forest restoration processes. In the generation process, a turbine converts boiler-created steam into electricity. A substantial amount of wood fuel is required for utility-scale generation. Avista's 50 MW Kettle Falls Generation Station consumes over 350,000 tons of wood waste annually, or 48 semi-truck loads of wood chips per day. It typically takes 1.5 tons of wood to make one megawatt-hour of electricity; the ratio varies with the moisture content of the fuel. The viability of another Avista biomass project depends on the availability and cost of the fuel supply. Many announced biomass projects fail due to lack of a long-term fuel source. If an RFP identifies a potential project, Avista will consider it for a future acquisition.

Geothermal Generation

Northwest utilities have shown increased interest in geothermal energy over the past several years. It provides predictable capacity and energy with minimal carbon dioxide emissions (zero to 200 pounds per MWh). Some forms of geothermal technology extract steam from underground sources to run through power turbines on the surface while others utilize an available hot water source to power an Organic Rankine Cycle installation. In recent years, a few projects were built in the Northwest. Due to the geologic conditions of Avista's service territory, no geothermal projects are likely to be developed. For Avista to add this technology to its portfolio, it would require a third-party transmission wheel and be acquired through an RFP process.

Geothermal energy struggles to compete due to high development costs stemming from having to drill several holes thousands of feet below the earth's crust; each hole can cost over \$3 million. Ongoing geothermal costs are low, but the capital required locating and proving a viable site is significant. Costs shown in this section do not account for the dry-hole risk associated with sites that do not prove to be viable after drilling has taken place.

Landfill Gas Generation

Landfill gas projects generally use reciprocating engines to burn methane gas collected at landfills. The Northwest has successfully developed many landfill gas resources. The

⁴ Rates, terms, and conditions are available at www.avistautilities.com under Schedule 62.

costs of a landfill gas project depend on the site specifics of a landfill. The Spokane area had a project on one of its landfills, but it was retired after the fuel source depleted to an unsustainable level. Much of the Spokane area no longer landfills its waste and instead uses the Spokane Waste to Energy Plant. Nearby in Kootenai County, Idaho, the Kootenai Electric Cooperative has developed the 3.2 MW Fighting Creek Project. Using publically available costs and the NPCC estimates, landfill gas resources are economically promising, but are limited in their size, quantity, and location.

Anaerobic Digesters (Manure or Wastewater Treatment)

The number of anaerobic digesters is increasing in the Northwest. These plants typically capture methane from agricultural waste, such as manure or plant residuals, and burn the gas in reciprocating engines to power generators. These facilities tend to be significantly smaller than utility-scale generation projects (less than five megawatts). Most facilities are located at large dairies or feedlots. A survey of Avista's service territory found no large-scale livestock operations capable of implementing this technology.

Wastewater treatment facilities can also host anaerobic digesting technology. Digesters installed when a facility is initially constructed helps the economics of a project greatly, though costs range greatly depending on the system configuration. Retrofits to existing wastewater treatment facilities are possible, but tend to have higher costs. Many of these projects offset energy needs of the facility, so there may be little, if any, surplus generation capability. Avista currently has a 260 kW waste water system under a PURPA contract with a Spokane County facility.

Small Cogeneration

Avista has few industrial customers capable of developing cost-effective cogeneration projects. If an interested customer was inclined to develop a small cogeneration project, it could provide benefits including reduced transmission and distribution losses, shared fuel, capital, and emissions costs, and credit toward Washington's EIA efficiency targets.

Another potentially promising option is natural gas pipeline cogeneration. This technology uses waste-heat from large natural gas pipeline compressor stations. In Avista's service territory few compressor stations exist, but the existing compressors in our service territory have potential for this generation technology. Avista has discussed adding cogeneration with pipeline owners.

A big challenge in developing any new cogeneration project is aligning the needs of the cogenerator and the utility's need for power. The optimal time to add cogeneration is during the retrofit of an industrial process, but the retrofit may not occur when the utility needs new capacity. Another challenge to cogeneration within an IRP is estimating costs when host operations drive costs for a particular project.

Nuclear

Avista does not include nuclear plants as a resource option in the IRP given the uncertainty of their economics, the apparent lack of regional political support for the technology, U.S. nuclear waste handling policies, and Avista's modest needs relative to the size of modern nuclear plants. Nuclear resources could be in Avista's future only if other utilities in the Western Interconnect incorporate nuclear power in their resource mix and offer Avista an ownership share or if cost effective small-scale nuclear plants become a reality.

The viability of nuclear power could change as national policy priorities focus attention on de-carbonizing the nation's energy supply. The lack of recent nuclear construction experience in the U.S. makes estimating construction costs difficult. Cost projections in the IRP are from industry studies, recent nuclear plant license proposals, and the small number of projects currently under development. New smaller, and more modular, nuclear design could increase the potential for nuclear by shortening the permitting and construction phase (lower AFUDC costs), and make these traditionally large projects better fit the needs of smaller utilities.

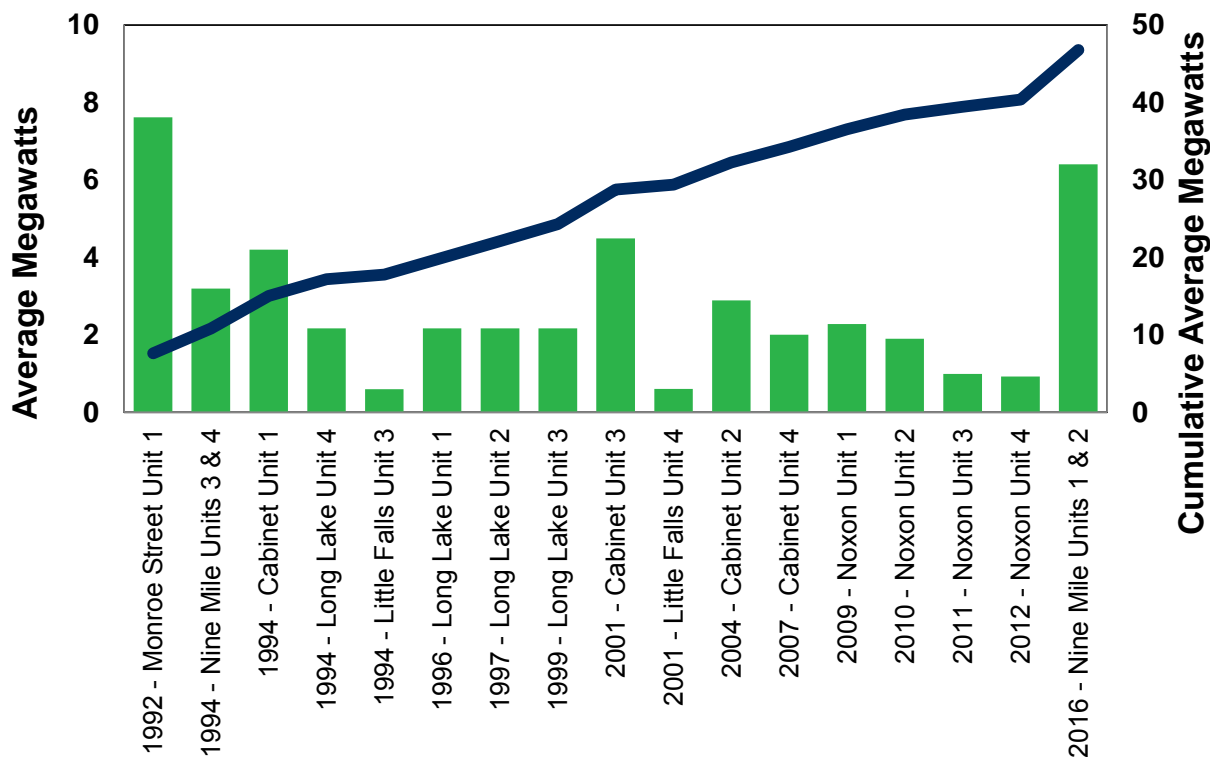
Coal

The coal generation industry is at a crossroads. In many states, like Washington, new coal-fired plants are unlikely due to emission performance standards and the shortage of utility scale carbon capture and storage projects. Federal guidelines under section 111(b) of the Clean Air Act may also prevent or restrict new coal generation. The final rule was not available at the time this section's drafting. The risks associated with future carbon legislation and projected low natural gas costs make investments in this technology challenging. The proposed EPA 111(b) greenhouse gas emission performance standard average of 1,000 lbs per MWh (averaged over a 30-year period) makes developing new coal plants difficult without carbon sequestration as non-sequestered coal options generate between 1,760 and 1,825 lbs of CO₂ per MWh.

Hydroelectric Project Upgrades and Options

Avista continues to upgrade its hydroelectric facilities. The latest hydroelectric upgrade added nine megawatts to the Noxon Rapids Development in April 2012. Figure 9.3 shows the history of upgrades to Avista's hydroelectric system. Avista added 40.1 aMW of incremental hydroelectric energy between 1992 and 2012. Upgrades completed after 1999 can qualify for the EIA, thereby reducing the need for additional renewable energy options.

Figure 9.3: Historical and Planned Hydro Upgrades



Avista is currently upgrading the Nine Mile powerhouse and replacing two of the four turbine generator units. Avista removed the last two original 1908 units in 2013, and began the project to replace the 107-year old technology with new turbine generators, generator step-up transformer, switchgear, excitors, governors and controls in 2014. Avista expects to complete the project in 2016.

The Spokane River hydroelectric construction occurred in the late 1800s and early 1900s, when the priority was to meet then-current loads. The developments currently do not capture a majority of the river flow as their original designs only met then-current loads and not river capacity. In 2012, Avista reassessed its Spokane River developments to evaluate opportunities to take advantage of more of the streamflow. The goal was to develop a long-term strategy and prioritize potential facility upgrades. Avista evaluated five of the six Spokane River developments and estimated costs for generation upgrade options at each. Each upgrade option should qualify for the EIA, meeting the Washington state renewable energy goal. These studies were part of the 2011 and 2013 IRP Action Plans and results appear below. Each of these upgrades would be a major engineering project, taking several years to complete, and require major changes to the FERC licenses and project water rights. A summary of the upgrade options is shown in Table 9.5, these upgrades will likely compete against other renewable resources when more renewables are required in Avista’s system.

Long Lake Second Powerhouse

Avista studied adding a second powerhouse at Long Lake over 20 years ago by using the small arch or saddle dam located on the south end of the project site. This project would be a major undertaking and require several years to complete, including major changes to the Spokane River license and water rights. In addition to providing customers with a clean energy source, this project could help reduce total dissolved gas levels by reducing spill at the project and provide incremental capacity to meet peak load growth.

The 2012 study focused on three alternatives. The first replaces the existing four-unit powerhouse with four larger units to total 120 MW, increasing capacity by 32 MW. The other two alternatives develop a second powerhouse with a penstock beginning from a new intake structure just downstream of the existing saddle dam. One powerhouse option was a single 68 MW turbine project. The second was a two-unit 152 MW project. The best alternative in the study was the single 68 MW option. Table 9.4 shows upgrade costs and characteristics.

Post Falls Refurbishment

The Post Falls hydroelectric development is 109 years old. Three alternatives could increase the existing capacity from 18 MW up to 40 MW. The first option is a new two-unit 40 MW powerhouse on the south channel that replaces the existing powerhouse. Alternative 2 retrofits the existing powerhouse with five 8.0 MW units (40 MW total). The last alternative retrofits the existing powerhouse with six 5.6-MW units (33.6 MW total). The cost differences between developing a new powerhouse in the south channel and the smaller plant refurbishment is small. Over the next decade, these alternatives will continue to be studied to address the aging infrastructure of the plant.

Monroe Street/Upper Falls Second Power House

Avista replaced the powerhouse at its Monroe Street development on the Spokane River in 1992. There are three options to increase its capacity. Each would be a major undertaking requiring substantial cooperation with the City of Spokane to mitigate disruption in Riverfront and Huntington parks and downtown Spokane during construction. The upgrade could increase plant capacity by up to 80 MW. To minimize impacts on the downtown area and the park, a tunnel drilled on the east side of Canada Island could avoid excavation of the south channel. A smaller option would add a second 40 MW Upper Falls powerhouse, but this option would require south channel excavation. A final option would add a second Monroe Street powerhouse for 44 MW.

Cabinet Gorge Second Powerhouse

Avista is exploring the addition of a second powerhouse at the Cabinet Gorge development site to mitigate total dissolved gas and produce additional electricity. A new 110 MW underground powerhouse would benefit from an existing diversion tunnel around the dam built during original 1952 construction.

Table 9.4: Hydro Upgrade Options

Resource	Post Falls	Monroe St/Upper Falls	Long Lake	Cabinet Gorge
Incremental Capacity (MW)	22	80	68	110
Incremental Energy (MWh)	90,122	237,352	202,592	161,571
Incremental Energy (aMW)	10.3	27.1	23.1	9.2
Peak Credit (Winter/ Summer)	24/0	31/0	100/100	0/0
Capital Cost (\$ Mill)	\$136	\$193	\$179	\$286
Levelized Energy Cost (\$/MWh)	\$159	\$93	\$112	\$197

Thermal Resource Upgrade Options

The 2013 IRP identified several thermal upgrade options for Avista's fleet. This plan continues the effort with new ideas to increase generating capability at Avista's thermal generating resources. No costs are presented in this section as pricing is sensitive to third-party suppliers.

Northeast CT Water Injection

This is a water injected NOx control system allowing the firing temperature to increase and thereby increasing the capacity at the Northeast CT by 7.5 MW.

Rathdrum CT Supplemental Compression

Supplemental compression is a new technology developed by PowerPhaseLLC, the technology increases airflow through a combustion turbine compressor increasing the machine's output. This upgrade increases Rathdrum CT capacity by 24 MW.

Rathdrum CT 2055 Uprates

By upgrading certain combustion and turbine components, the firing temperature can increase to 2,055 degrees from 2020 degrees corresponding to a five MW increase in output.

Rathdrum CT Inlet Evaporation

Installing a new inlet evaporation system will increase the Rathdrum CT capacity by 17 MW on a peak summer day, but no additional energy is expected during winter months.

Kettle Falls Turbine Generator Upgrade

The Kettle Falls plant began operation in 1983. In 2025, the generator and turbine will be 42 years old and will be at the end of its expected life. At this time, Avista could spend additional capital and upgrade the unit by 12 megawatts rather than replace it with in kind technology.

Kettle Falls Fuel Stabilization

The wood burned at Kettle Falls varies in moisture content, and dryer fuel burns more efficiently. A fuel drying system added to the fuel handling system would allow the boiler to operate at a higher efficiency point, increasing plant capability by three megawatts.

Ancillary Services Valuation

IRPs traditionally model the value of resources using hourly models. This method provides a good approximation of the value of a resource. This method does not provide a value for the intra hour or ancillary services needs of a balancing area. Ancillary services in this study include spinning and non-spinning reserves, regulation, and load following. Spinning and non-spinning reserves refer to the six percent standby requirement set by WECC standards. Of the six percent, half of the reserves must synchronize to the system and the remaining half must be capable of synchronizing to the system in ten minutes. Regulation is meeting the instantaneous changes in load or resources, plants that respond to this change have automatic generating control. Load following represents responding to load changes within the hour, but greater than ten-minutes.

Avista developed a new tool, called the Avista Decision Support System, for use in operations and long-term planning. This model is a mixed-integer linear program simulating Avista's system. The model optimizes a set of resources to meet system load and ancillary services requirements using real-time information. The tool uses both actual and forecasted information regarding the surrounding market and operating conditions to provide dispatch decisions, but can also use historical data to simulate benefits of certain system changes. ADSS uses historical data sets to estimate ancillary services values for storage and natural gas-fired resources.

Storage

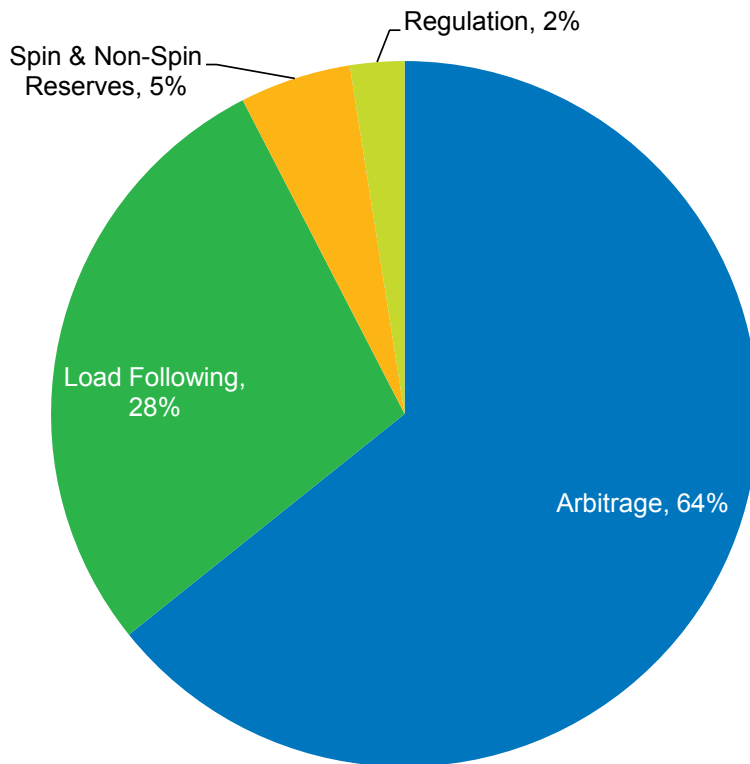
As intermittent resources grow in size, there is potential the existing system is not robust enough to integrate the resources. To address this concern, governments and utilities are investing in storage technology. Today storage has a limited role due to cost and technology infancy. This analysis studies the potential financial value storage brings to Avista's power supply costs based on 2012 actual data and average hydroelectric conditions. The study includes several storage capacities with storage to peak ratio of three to one and 85 percent efficiency. Table 9.5 is the value brought to the power supply system for each storage capacity size. These values are to the Avista system only and do not represent the value to other systems or non-power supply benefits. Avista has a deep resource stack of flexible resources and adding additional flexible resources do not necessarily add value unless sold to third parties.

The values shown in Table 9.5 include margin from several value streams including operating reserves, regulation, load following, and arbitrage. Arbitrage is optimizing the battery to charge in low prices and discharging when prices are higher. Of the values shown in Table 9.5, Arbitrage represents the largest value stream (64 percent). Figure 9.4 shows the five value streams for power supply benefits. Load following and arbitrage represent 92 percent of the value to Avista.

Table 9.4: Storage Power Supply Value

Storage Capacity (MW)	Annual Value	Annual \$/kW Value
35	\$1,201,590	\$34
30	\$1,024,569	\$34
25	\$923,291	\$37
10	\$381,407	\$38
5	\$189,000	\$38
1	\$36,862	\$37

Figure 9.4: Storage's Value Stream



Natural Gas-Fired Facilities

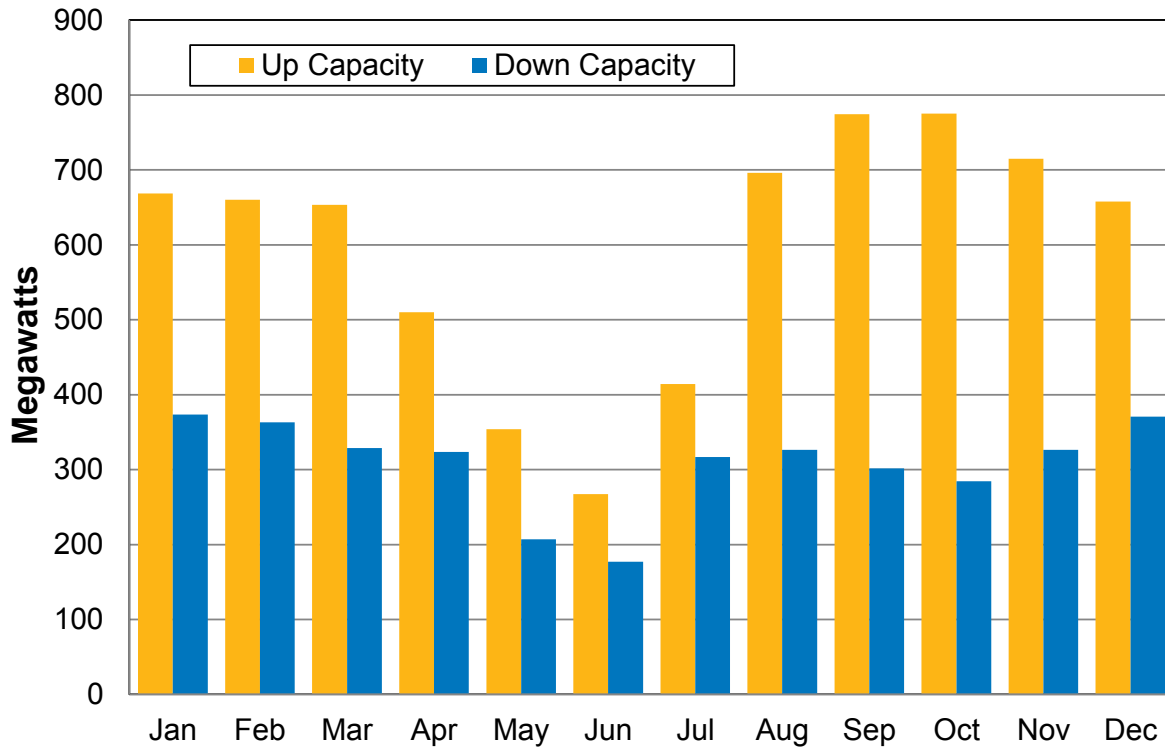
Natural gas-fired facilities can provide ancillary services in addition to energy and capacity. This study looks at their incremental ancillary services value to the system. These values do not represent the value for current resources of similar technology, but only the incremental value of a new facility. This study assumes 100 MW resource increments in 2020. Table 9.6 shows the results of the analysis. The incremental values for these resources are marginal due to the limited need for this type of resource. The study assumes each facility has different operating capabilities. For example, the diesel back-up can only provide non-spin reserves as it is for emergency use only, while the LMS 100 may provide non-spinning reserves, spinning reserves, regulation, and load following if operating.

Table 9.5: Natural Gas Fired Facilities Ancillary Service Value

Resource Type	Capabilities	Annual \$/kW Value
CCCT	Load Following/ Spin ⁵ , Regulation	\$0.00
LMS 100	Load Following/ Spin, Non-Spin/ Regulation	\$1.12
Reciprocating Engines	Load Following/Spin/Non-Spin	\$0.61
Diesel Back-Up	Non-Spin	\$0.00

Currently, there is not a mature ancillary services market in the Northwest, so ancillary service values are the costs of operating Avista’s system differently to provide more ancillary services relative to traditional wholesale energy sales. The ancillary service values of both storage and natural gas-fired technology were less than expected prior to the analysis. Avista concluded that the results were reasonable for one primary reason: having a large hydroelectric system, Avista’s has a significant amount of flexibility relative to its load variability. With as the addition of more variable generation resources, the value of ancillary services capacity should rise. Figure 9.5 details the significant surplus of ancillary service generation Avista’s system contains. While the system can become constrained during peak load periods, the large value in these periods is not as significant when averaged over the entire year.

Figure 9.5: Avista’s Monthly Up/Down Regulation Surplus



⁵ Fast start CCCTs may have some non-spin reserve capability.

10. Market Analysis

Introduction

This section describes the electricity and natural gas markets studied in the 2015 IRP. It contains pricing risks Avista considers to meet customer demands at the lowest reasonable cost. The analytical foundation for the 2015 IRP is a fundamentals-based electricity model of the entire Western Interconnect. The market analysis evaluates potential resource options on their net market value within the wholesale marketplace, rather than the summation of their installation, operation, maintenance, and fuel costs. The PRS analysis uses these net market values to select future resource portfolios.

Understanding market conditions in the Western Interconnect is important because regional markets are highly correlated due to large transmission linkages between load centers. This IRP builds on prior analytical work by maintaining the relationships between the various sub-markets within the Western Interconnect, and the changing values of company-owned and contracted-for resources. The backbone of the analysis is AURORA^{XMP}, an electricity market model; AURORA^{XMP} emulates the dispatch of resources to loads across the Western Interconnect given fuel prices, hydroelectric conditions, and transmission and resource constraints. The model's primary outputs are electricity prices at key market hubs (e.g., Mid-Columbia), resource dispatch costs and values, and greenhouse gas emissions.

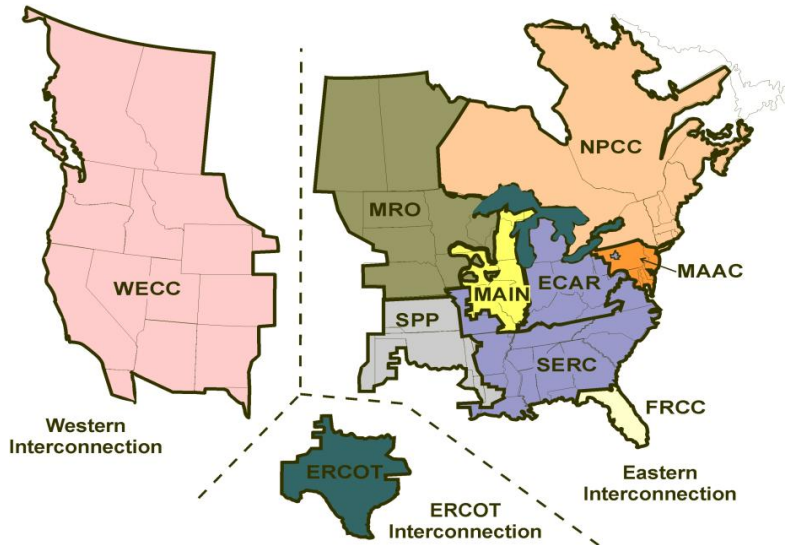
Section Highlights

- Natural gas, solar, and wind resources dominate new generation additions in the Western Interconnect.
- Clean Power Plan regulation could cause large price and costs swings, but without a final rule, the impacts are unknown.
- The Expected Case forecasts a continuing reduction of Western Interconnect greenhouse gas emissions due to coal plant shut downs brought on by federal and state regulations, and low natural gas prices.

Marketplace

AURORA^{XMP} is a fundamentals-based modeling tool used by Avista to simulate the Western Interconnect electricity market. The Western Interconnect includes states west of the Rocky Mountains, the Canadian provinces of British Columbia and Alberta, and the Baja region of Mexico as shown in Figure 10.1. The modeled area has an installed resource base of approximately 240,000 MW.

Figure 10.1: NERC Interconnection Map



The Western Interconnect is separate from the Eastern and ERCOT interconnects to the east except for eight DC inverter stations. It follows operation and reliability guidelines administered by WECC. Avista modeled the WECC electric system as 17 zones based on load concentrations and transmission constraints. After extensive study in prior IRPs, Avista models the Northwest region as a single zone because this configuration dispatches resources in a manner consistent with historical operations. Table 10.1 describes the specific zones modeled in this IRP.

Table 10.1: AURORA^{XMP} Zones

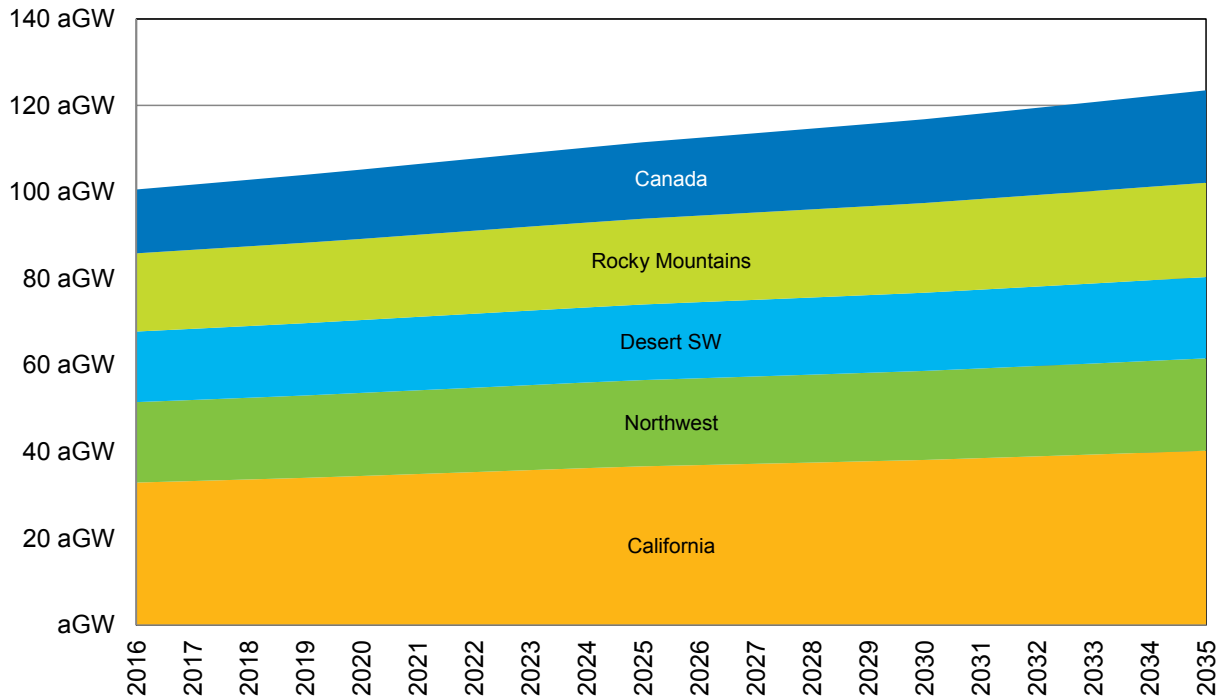
Northwest- OR/WA/ID/MT	Southern Idaho
COB- OR/CA Border	Wyoming
Eastern Montana	Southern California
Northern California	Arizona
Central California	New Mexico
Colorado	Alberta
British Columbia	South Nevada
North Nevada	Baja, Mexico
Utah	

Western Interconnect Loads

The 2015 IRP relies on a load forecast for each zone of the Western Interconnect. Avista uses other utilities’ resource plans and regional plans to quantify load growth across the west. These estimates include energy efficiency, customer-owned generation, plug-in electric vehicles, and demand response reduction within the trajectory. Forecasting future energy use is difficult because of large uncertainties with the long-term drivers of future energy use.

Figure 10.2 shows regional load growth estimates. The total of the forecasts show Western Interconnect loads rising nearly 1.1 percent annually over the next 20 years. On a regional basis, the Northwest will grow at 0.73 percent, California at one percent, the Rocky Mountain States at one percent, and the desert Southwest region is lower than previous forecasts at 0.75 percent. The strongest projected growth area in the region comes from Canada at two percent. From a system reliability perspective, regional peak loads grow at similar levels.

Figure 10.2: 20-Year Annual Average Western Interconnect Energy



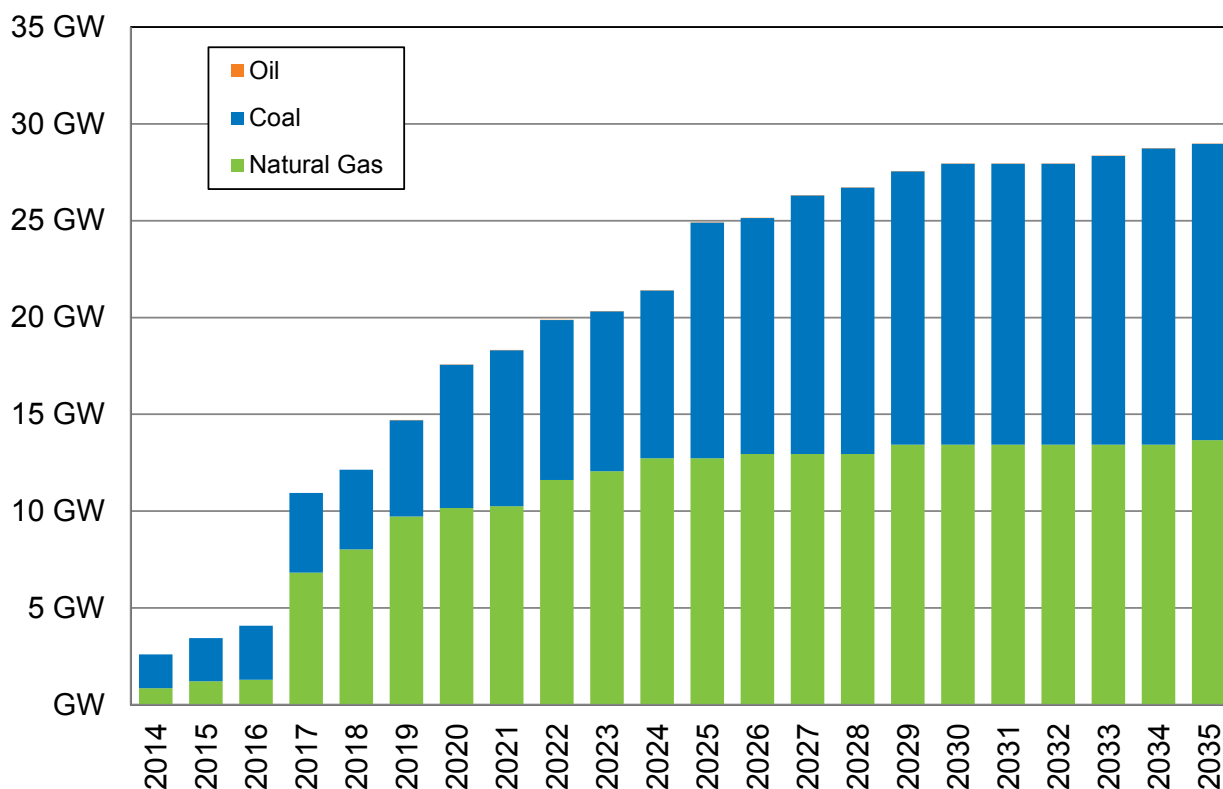
Resource Retirements

The resource mix constantly changes as new resources start generating and older resources retire. In prior IRPs, much of the existing fleet continued to serve future loads in combination with new resources. Many companies are now choosing to retire older technology plants to comply with environmental regulations and economic changes. Most plant closures are once-through-cooling (OTC) facilities in California and older coal technology throughout North America to meet stricter air emissions standards and the lower cost of natural gas. Several states are developing rules to restrict or eliminate certain generation technologies. In California, all OTC facilities require retrofitting to eliminate OTC technology or the plant must retire. Over 14,200 MW of OTC natural gas-fired generators in California likely will retire and need replacement in the IRP timeframe. Remaining OTC natural gas-fired and nuclear facilities with more favorable economics are candidates for retrofitting with new cooling technology. The IRP models the closure of OTC plants with identified shutdown dates from their utility owners' IRPs and news releases. Elimination of OTC plants in California will eliminate older technology presently used for reserves and high demand hours. Replacement plants

will be expensive for California customers, but a more modern and efficient generation fleet will serve customers.

Coal-fired facilities continue to experience increased regulatory scrutiny. In the Northwest, the Centralia and Boardman coal plants will retire before the end of calendar years 2020 and 2025 respectively, for a reduction of 1,961 megawatts. Other coal-fired plants throughout the Western Interconnect have announced plant closures, including Four Corners, Carbon, Arapahoe, San Juan, Reid Gardner, and Corette. The Nevada legislature successfully placed into law a plan to retire all in-state coal plants, and PacifiCorp appears poised to retire many plants as indicated in its most recent IRP. In total, the announced retirements, shown in Figure 10.3, include approximately 29 gigawatts of capacity by 2035. Avista does not forecast any further large coal facility retirements in its Expected Case.

Figure 10.3: Resource Retirements (Nameplate Capacity)



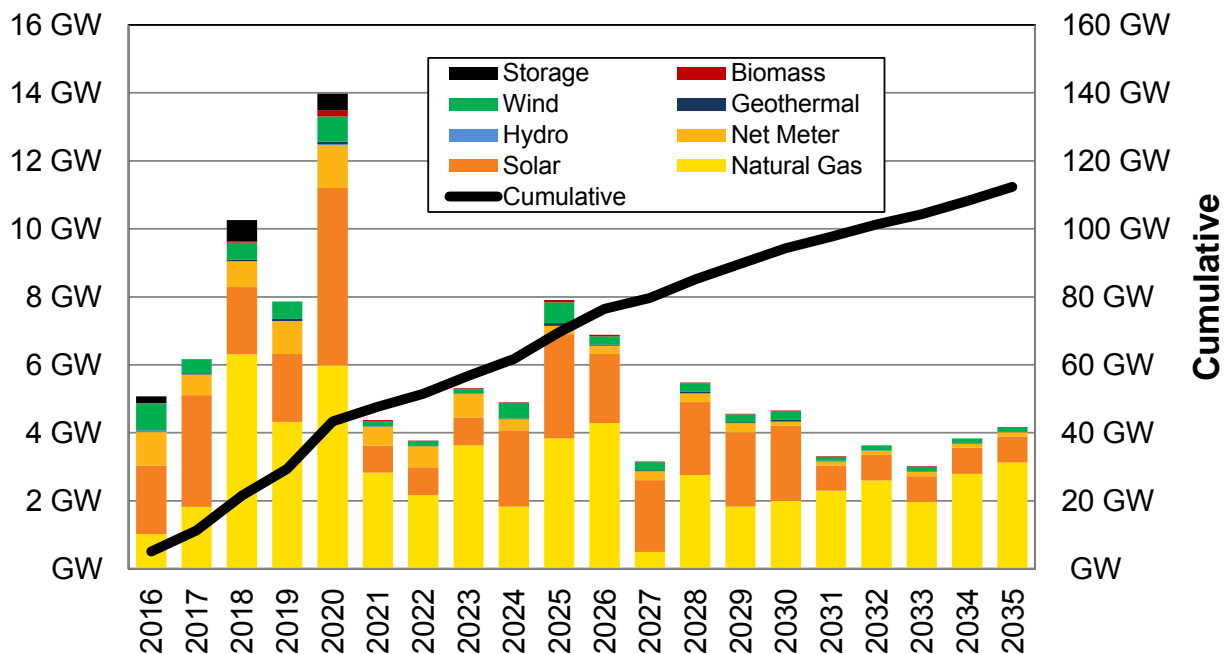
New Resource Additions

New resource capacity is required to meet future load growth and replace retiring power plants over the next 20 years. To fill the gap, the model adds new resources to each region to maintain a five percent Loss of Load Probability (LOLP). This means meeting all system demand in 95 percent of simulated forecasts. The generation additions must meet capacity, energy, ancillary services, and renewable portfolio mandates. To meet future requirements, natural gas-fired CCCT or peakers, solar, and wind are the only

options modeled for this plan. The IRP does not include new nuclear or coal plants over the forecast horizon.

Many states have RPS requirements promoting renewable generation to reduce greenhouse gas emissions, provide jobs, and diversify their energy mix. RPS legislation generally requires utilities to meet a portion of their load with qualified renewable resources. No federal RPS mandate exists presently; therefore, each state defines RPS obligations differently. AURORA^{XMP} cannot model RPS levels explicitly. Instead, Avista inputs RPS requirements into the model at levels sufficient to satisfy state laws based on resource selection trends. Figure 10.4 illustrates new capacity and RPS additions made in the modeling process. Nearly 112 GW will be required to meet the renewable and capacity requirements for the system. Wind and solar facilities meet most renewable energy requirements. Geothermal, biomass, and hydroelectric resources provide limited RPS contributions. Due to solar’s low capacity factor, large quantities of installed capacity are necessary to make a meaningful contribution. Renewable resource choices differ depending on state laws and the local availability of renewable resources. For example, the Southwest will meet RPS requirements with solar given policy choices by those states. The Northwest will use a combination of wind, solar, and hydroelectric upgrades because the costs of these resources are the lowest for the region. Rocky Mountain States will meet RPS requirements predominately with wind.

Figure 10.4: Cumulative Generation Resource Additions (Nameplate Capacity)



In total 45,000 MW of new utility and consumer-owned generation will put downward pressure on afternoon peak pricing. Further, it will move peak load requirements later in the day. The forecast finds wind generation is no longer the renewable resource of choice for the Western Interconnect, as it only adds 6,000 MW of new capacity. The largest resource addition expected in the west is natural gas-fired generation. The technology likely will be a combination of peakers and flexible combined cycle plants. A

new entrant into the resource forecast is storage technology. Given increasing government intervention in the energy storage market, 1,300 MW of storage capacity is included in the forecast for utility needs. Avista will continue to monitor this technology to determine if a larger level of market penetration is likely.

The Northwest market will need new capacity beginning in 2021. Utility's resource size requirements will determine if the new plants are combined cycle CT plants or peakers. Based on market simulation results, a 24 percent regional planning margin (including operating reserves) is necessary to meet the 5 percent LOLP. The Northwest likely will continue to develop wind to meet RPS requirements, but given the lower cost of solar, Avista expects some utilities to move to solar to meet renewable requirements beginning in 2020. Table 10.2 shows the amount of new renewables added to the Northwest by the end of 2035.

Table 10.2: Added Northwest Generation Resources

Resource Type	Capacity (MW)
Wind	2,340
Utility- Solar	1,140
Customer- Solar	1,884
Other Renewables	225

Fuel Prices and Conditions

Fuel cost and availability are some of the most important drivers of the wholesale marketplace and resource values. Some resources, including geothermal and biomass, have limited fuel options or sources, while coal and natural gas have more potential. Hydroelectric, wind, and solar benefit from free fuel, but are highly dependent on weather and limited siting opportunities.

Natural Gas

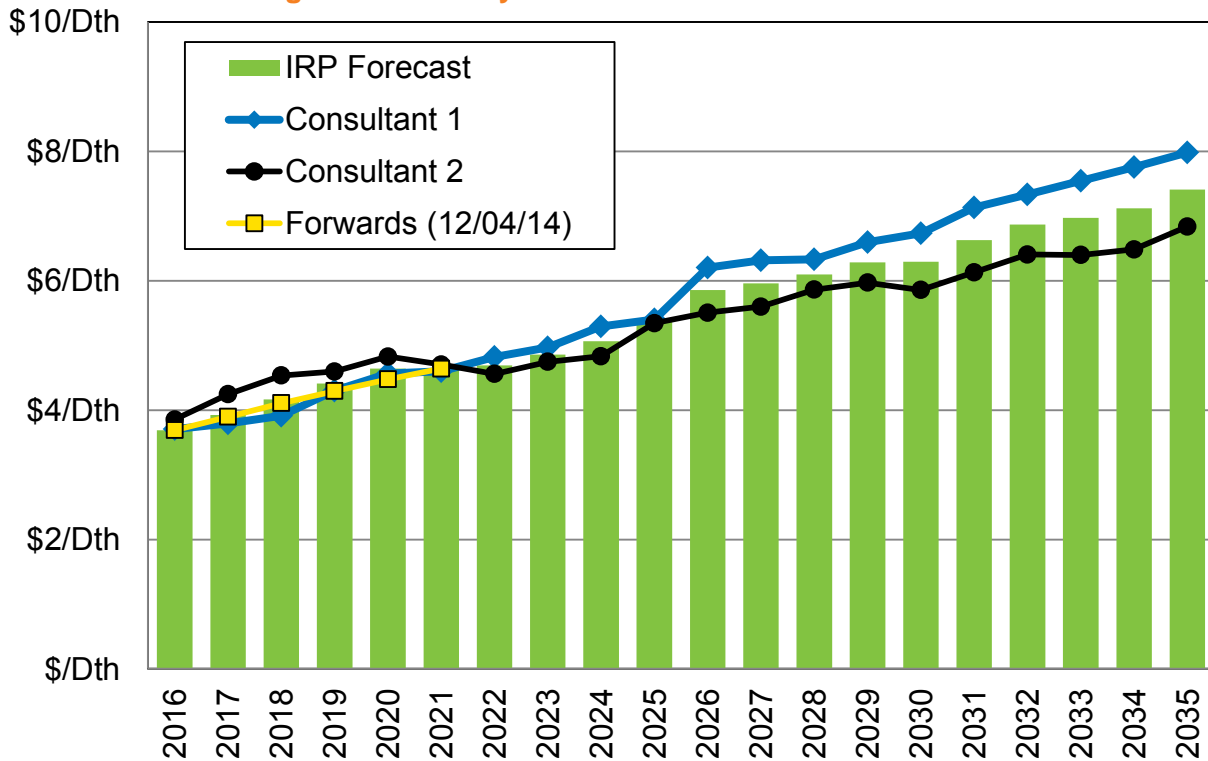
The natural gas industry is continuing to undergo a fundamental shift. As hydraulic fracturing, or fracking, continues to become more efficient, production has increased at a record pace. At the same time, growth in the residential, commercial, and industrial markets is flat. Natural gas used for power generation is growing due to its flexibility to support the variable output from renewable energy and as a replacement resource for coal plant retirements caused by state and federal regulations. Additionally, forecast adoption of natural gas for transportation and LNG exports increases demand in later years of the forecast. The forecast from one of the consultants shows growth driven by natural gas generation and transportation. LNG exports are also included in this forecast at a very modest level beginning in 2016.

The fuel of choice for new base-load and peaking capability continues to be natural gas. Natural gas was subject to significant price volatility. Unconventional sources reduce overall price levels and volatility, although it is unknown how much volatility will exist in the future, as technology plays out against regulatory pressures and the potential for

new demand created by falling prices. Avista uses forward market prices and a combination of two forecasts from prominent energy industry consultants to develop the natural gas price forecast for this IRP. The levelized nominal price is \$5.13 per dekatherm at Henry Hub (shown in Figure 10.5 as the green bars). The pricing methodology to create a fundamental price forecast is below, as follows:

- 2016: 100 percent market;
- 2017: 75 percent market, 25 percent consultant average;
- 2018: 50 percent market, 50 percent consultant average; and
- 2019-21: 25 percent market, 75 percent consultant average.

Figure 10.5: Henry Hub Natural Gas Price Forecast



Price differences across North America depend on demand at trading hubs, and the pipeline constraints between them. Recently the Ruby pipeline provided the west coast access to historically cheaper natural gas supplies located in the Rocky Mountains. Table 10.3 presents western natural gas basin differentials from Henry Hub prices. Prices converge over the course of the study as new pipelines and sources of natural gas materialize. To illustrate the seasonality of natural gas prices, monthly Stanfield price shapes in Table 10.4 show selected forecast years.

Table 10.3: Natural Gas Price Basin Differentials from Henry Hub

Basin	2016	2020	2025	2030	2035
Stanfield	93%	94%	95%	97%	100%
Malin	98%	98%	98%	99%	101%
Sumas	90%	93%	93%	97%	100%
AECO	81%	83%	87%	92%	94%
Rockies	97%	96%	97%	98%	99%
Southern CA	103%	102%	102%	102%	103%

Table 10.4: Monthly Price Differentials for Stanfield from Henry Hub

Month	2016	2020	2025	2030	2035
Jan	97%	97%	98%	99%	103%
Feb	97%	96%	97%	98%	102%
Mar	96%	95%	96%	98%	101%
Apr	92%	94%	95%	96%	100%
May	91%	92%	93%	95%	99%
Jun	87%	88%	92%	94%	98%
Jul	87%	90%	93%	93%	98%
Aug	91%	93%	94%	95%	99%
Sep	93%	95%	95%	97%	100%
Oct	93%	95%	96%	98%	100%
Nov	95%	97%	97%	100%	102%
Dec	96%	97%	96%	99%	102%

Coal

This IRP models no new coal plants in the Western Interconnect, so coal price forecasts affect only existing facilities. The average annual price increase over the IRP timeframe is 3.6 percent based on data from the Energy Information Administration. For Colstrip Units 3 and 4, Avista used escalation rates based on expectations from existing contracts.

Hydroelectric

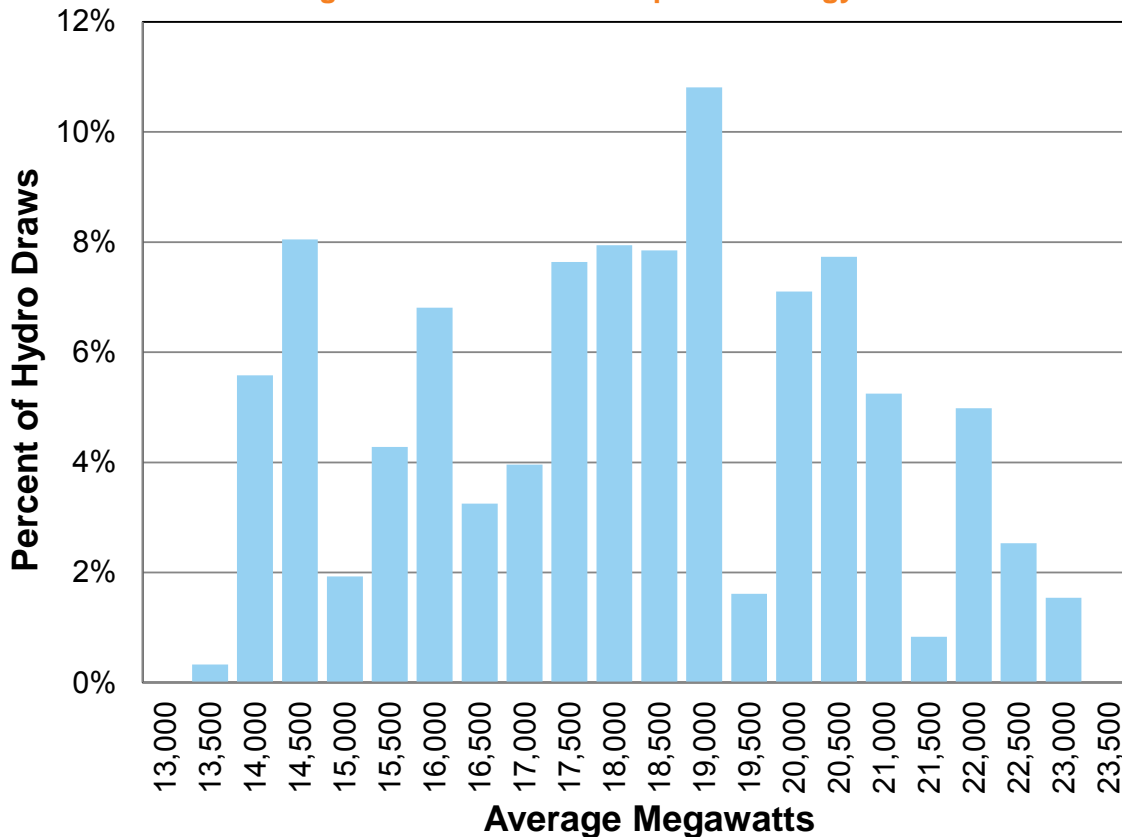
The Northwest U.S., British Columbia, and California have substantial hydroelectric generation capacity. A favorable characteristic of hydroelectric power is its ability to provide near-instantaneous generation up to and potentially beyond its nameplate rating. This characteristic is valuable for meeting peak load, following general intra-day load trends, shaping energy for sale during higher-valued hours, and integrating variable generation resources. The key drawback to hydroelectric generation is its variable and limited fuel supply.

This IRP uses an 80-year hydroelectric record from the 2014 BPA rate case. The study provides monthly energy levels for the region over an 80-year hydrological record spanning 1928 to 2009. This IRP also includes BPA hydroelectric estimates for the 80-year record for British Columbia and California.

Many IRP analyses use an average of the hydroelectric record, whereas stochastic studies randomly draw from the record, as the historical distribution of hydroelectric generation is not normally distributed. Avista does both. Figure 10.6 shows the average hydroelectric energy of 17,370 aMW in Washington, Oregon, Idaho, and western Montana. The chart also shows the range in potential energy used in the stochastic study, with a 10th percentile water year of 13,735 aMW (-21 percent), and a 90th percentile water year of 20,340 aMW (+17 percent).

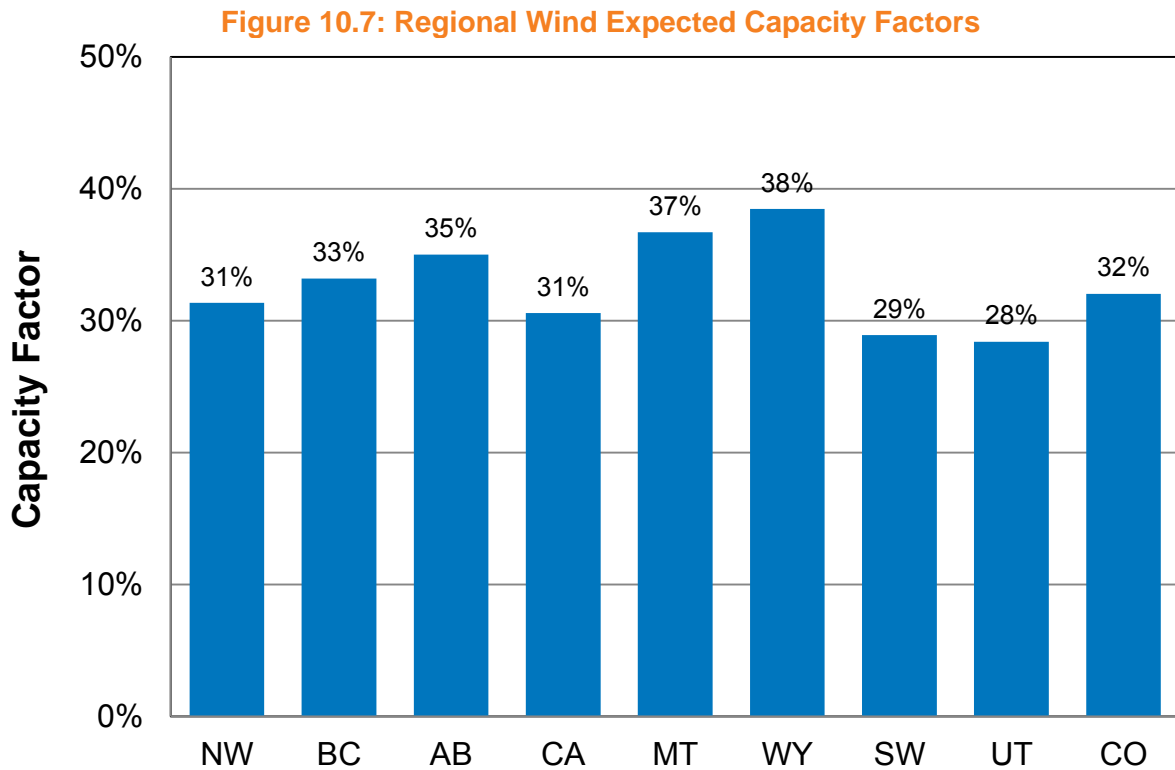
AURORA^{XMP} maps each hydroelectric plant to a load zone, creating a similar energy shape for all hydroelectric projects in that load zone. For Avista’s hydroelectric plants, AURORA^{XMP} uses the output from proprietary software with a better representation of operating characteristics and capabilities. For modeling, AURORA^{XMP} represents hydroelectric plants using annual and monthly capacity factors, minimum and maximum generation levels, and sustained peaking generation capabilities. The model’s objective, subject to constraints, is to move hydroelectric generation into peak hours to follow daily load changes; this maximizes the value of the system consistent with actual operations.

Figure 10.6: Northwest Expected Energy



Wind

Additional wind resources are necessary to satisfy renewable portfolio standards. These additions mean significant competition for the remaining higher-quality wind sites. The capacity factors in Figure 10.7 are averages for the entire area, not for specific projects. The IRP uses capacity factors from a review of the BPA and the National Renewable Energy Laboratory (NREL) wind data.



Greenhouse Gas Emissions and the Clean Power Plan

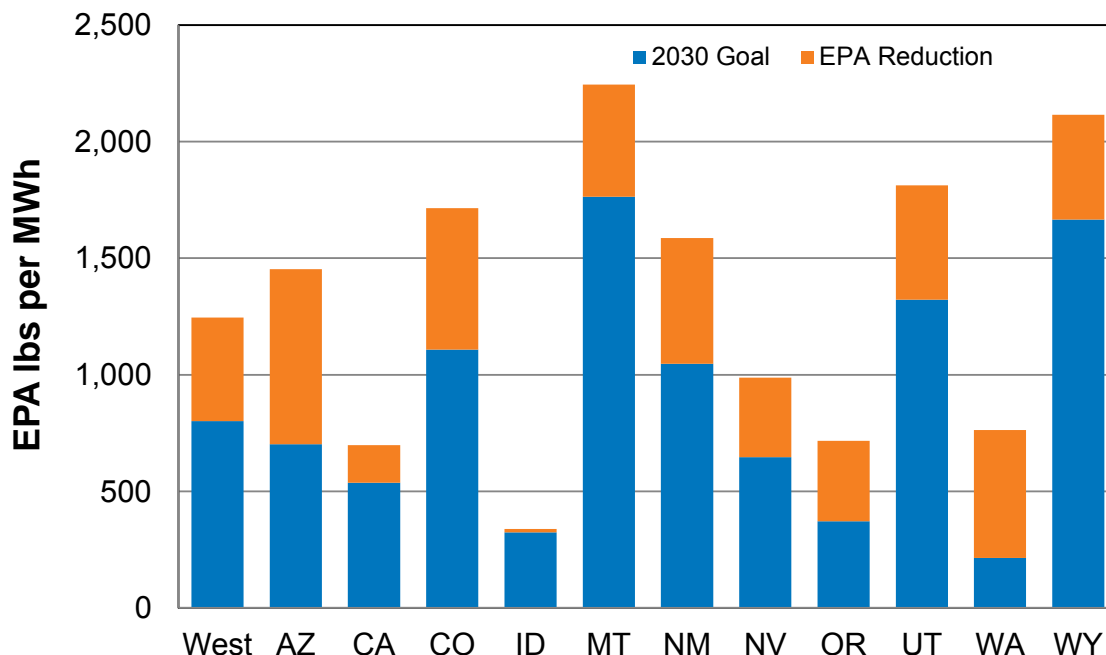
Greenhouse gas or carbon emissions regulation is a significant risk for the electricity marketplace today because of the industry's heavy reliance on carbon-emitting thermal power generation. Regulation may require the reduction of carbon emissions at existing power plants, the construction of low- and non-carbon-emitting technologies, and operational changes to the resource mix over time. Between 2008 and 2012, carbon emissions from electric generation have fallen by nearly 12 percent due to reduced loads and lower coal generation levels. In 2014, the EPA released a draft rule of the CPP under section 111(d) of the CAA to reduce emissions from existing plants. Details about the CPP are in Chapter 7 - Policy Considerations.

Future carbon emissions could continue to fall due to fundamental market changes. To accelerate the reductions, national legislation or EPA's CPP proposal to improve the emissions per MWh on existing plants through the application of the four building blocks and other mechanism, as described in Chapter 7 – Policy Considerations. Use of compliance measures that do not rely on emission reductions solely from covered fossil-fueled electric generating units, such as renewable energy and energy efficiency standards, would not necessarily preclude emission increases from certain sources, just an overall reduction in a statewide emission rate. If emissions from plants covered under section 111(d) and newly constructed plants subject to section 111(b) are not both subjected (at some point) to the same emission rate target established under section 111(d), then newly constructed thermal facilities may add greenhouse gas emissions even when complying with 111(b)'s emission performance standard.

For this IRP, the Expected Case makes assumptions on the expectations of state and national policies toward greenhouse gas emissions. First, Avista’s 2013 IRP acknowledgement from the WUTC directed the company to include a non-zero cost of carbon in the 2015 IRP. The acknowledgement indicated that by not including a risk factor for this potential cost, the portfolio decision does not include the potential risk of the added costs. The Expected Case in this IRP includes a 10 percent probability of \$12 per metric ton beginning in 2020. Beyond 2020, the price increases 5 percent per year. This results in levelized cost of \$11.45 per metric ton in 10 percent of the modeled iterations.

The second carbon reduction assumption included in the Expected Case is the Western Interconnect meeting draft CPP goals by 2030. At the time of IRP development, the CPP proposal was in draft form. This regulation received the most comments on a proposed rule in EPA history. Given the concerns expressed, EPA indicates the final rule will differ from the draft. Given this uncertainty, the IRP assumes meeting CPP state-by-state goals as a whole in the Western Interconnect by 2030. Further, the IRP assumes certain modifications to the goal’s rates to conform to this IRP’s modeling effort, such as adjustments for plants located outside the Western Interconnect and adjusting Idaho’s goal to account for the partial year of operations for a plant entering service in that in 2012. Figure 10.8 shows the adjusted state and regional goals for the carbon intensity of the covered plants in the CPP proposal compared to the 2012 baseline. This IRP assumes the region must be below 801 pounds per MWh by 2030.

Figure 10.8: 2030 Adjusted State Carbon Intensity CPP Goals



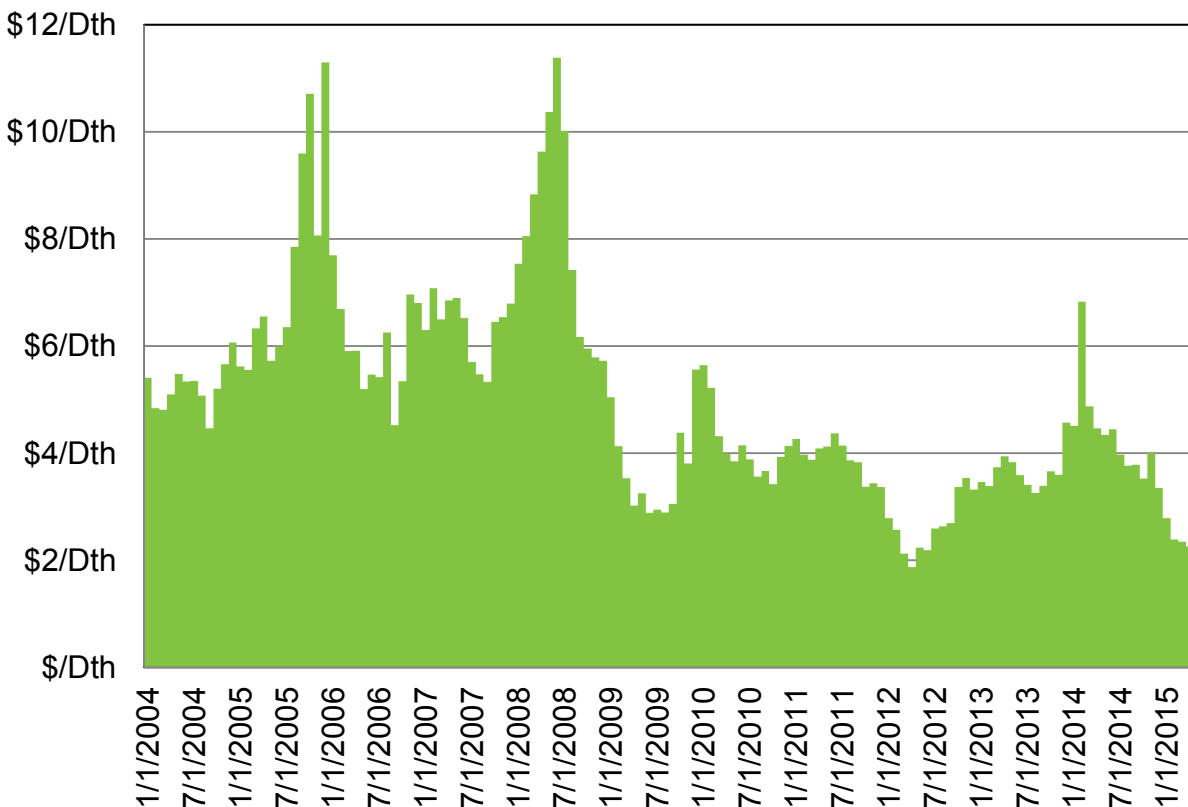
Risk Analysis

A stochastic analysis, using the variables discussed earlier in this chapter, evaluates the market to account for future uncertainty. It is better to represent the electricity price forecast as a range, as point estimates are unlikely to reflect underlying assumptions perfectly. Stochastic price forecasts develop more robust resource strategies by accounting for tail risk. This IRP developed 500 distinct 20-year market futures, providing a distribution of the marketplace and illustrating potential tail risk outcomes. The next several pages discuss the input variables driving market prices, and describe the methodology and the range in inputs used in the modeling process.

Natural Gas

Natural gas prices are among the most volatile of any traded commodity. Daily Stanfield prices ranged between \$1.72 and \$24.36 per dekatherm between 2004 and 2014. Figure 10.9 shows average Stanfield monthly prices since January 2004. Prices retreated from 2008 highs to a monthly price of \$2.26 per dekatherm in April 2015. Prices since 2009 are lower than the previous five years, but continue to show volatility.

Figure 10.9: Historical Stanfield Natural Gas Prices (2004-2015)



There are several methods to stochastically model natural gas prices. This study retains the method first used in the 2011 IRP, with mean prices shown in Figure 10.5 as the starting point. Prices vary using historical month-to-month volatility and a lognormal distribution.

Figure 10.10 shows Stanfield natural gas price duration curves for 2016, 2025, and 2035. The chart illustrates a larger price range in the later years of the study, reflecting a growing distribution to simulate future uncertainty. Shorter-term prices are more certain due to additional market information and the quantity of near term natural gas trading. Figure 10.11 shows another view of the forecast. The mean price in 2016 is \$3.47 per dekatherm, represented by the horizontal bar, and the levelized price over the 20 years \$4.97 per MWh. The bottom and top of the bars represent the 10th and 90th percentiles. The bar length indicates price uncertainty.

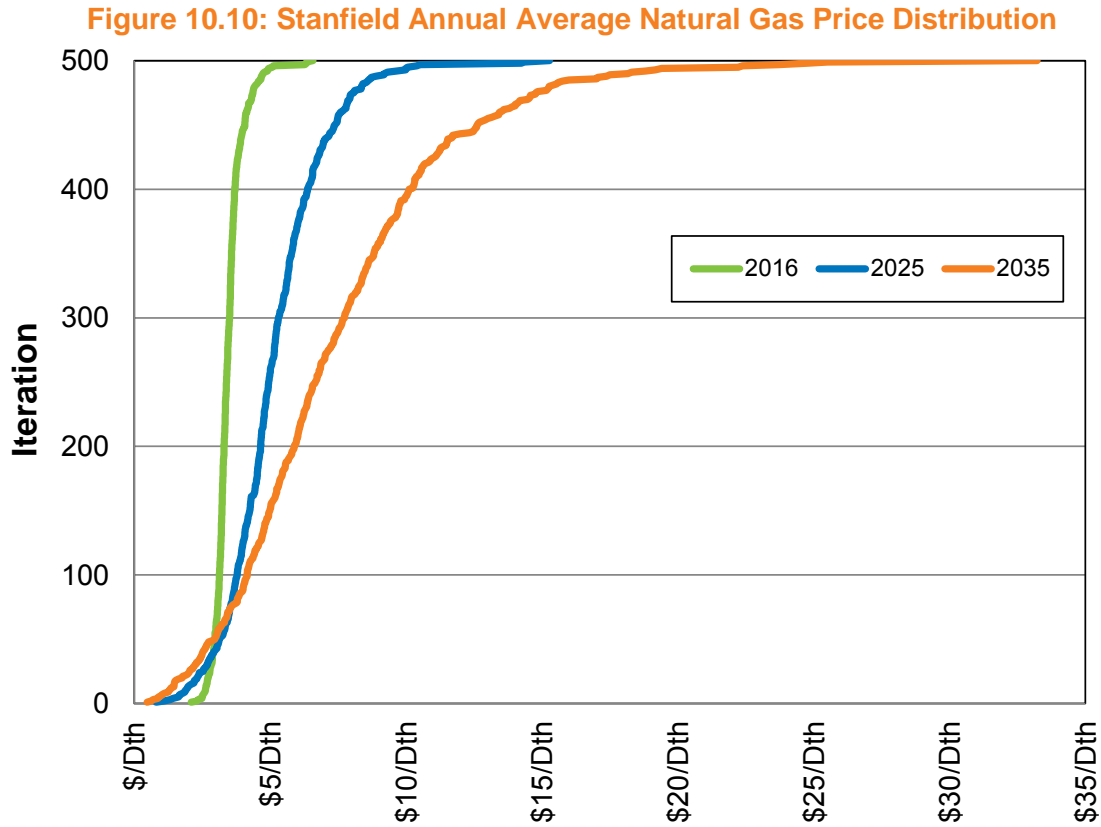
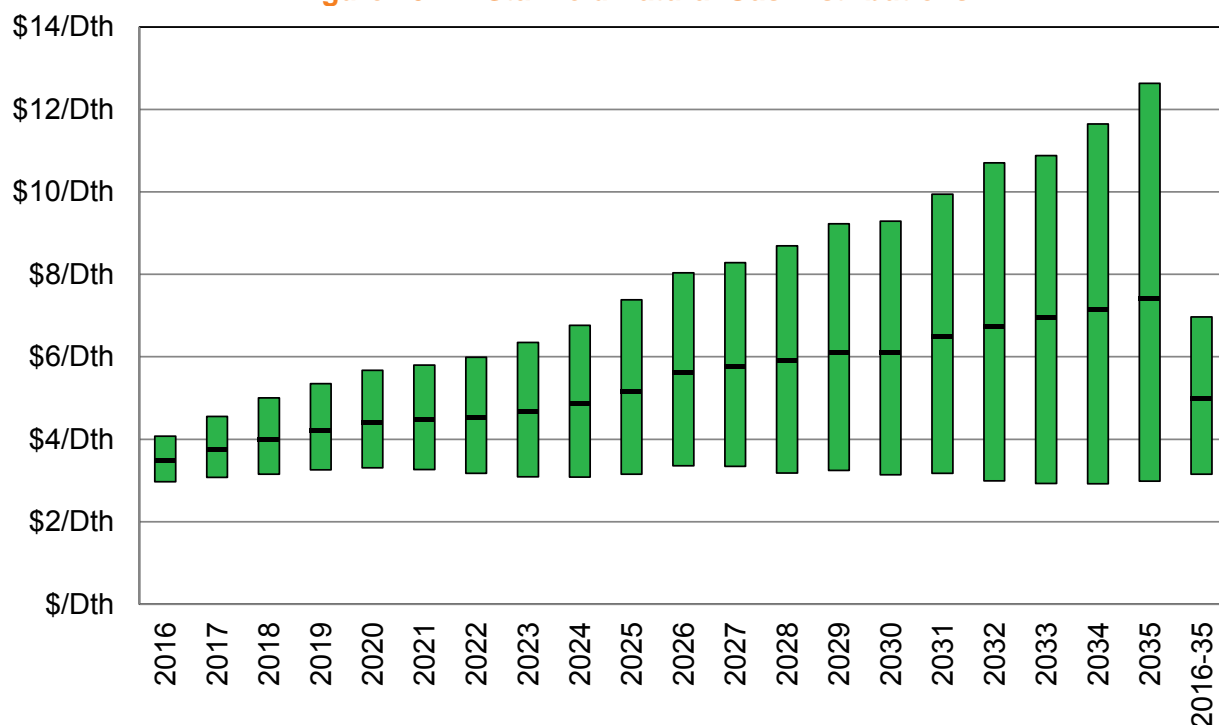


Figure 10.11: Stanfield Natural Gas Distributions



Regional Load Variation

Several factors drive load uncertainty. The largest short-run driver is weather. Over the long-run economic conditions like the recent Great Recession, tend to have a larger impact on the load forecast. IRP loads increase on average at the levels discussed earlier in this chapter, but risk analyses emulate varying weather conditions and base load impacts.

Avista continues to use a method adopted for its 2003 IRP to model weather variation. FERC Form 714 data from 2007 to 2013 for the Western Interconnect form the basis for the analysis. Correlations between the Northwest and other Western Interconnect load areas represent how electricity demand changes together across the larger system. This method avoids oversimplifying Western Interconnect loads. Absent the use of correlations, stochastic models offset changes in one variable with changes in another, virtually eliminating the possibility of broader excursions witnessed by the larger electricity grid. The additional accuracy from modeling loads in this matter is crucial for understanding variation in wholesale electricity market prices. It is also vital for understanding the value of peaking resources and their use in meeting system variation.

Tables 10.5 and 10.6 present load correlations used for the 2015 IRP. Statistics are relative to the Northwest load area (Oregon, Washington and Idaho). “NotSig” in the table indicates that no statistically valid correlation existed in the data evaluated. “Mix” indicates the relationship was not consistent across the 2007 to 2013 period. For

regions and periods with NotSig and Mix results, no correlations are modeled. Tables 10.7 and 10.8 provide the coefficient of determination values for each zone.¹

Table 10.5: January through June Load Area Correlations

Area	Jan	Feb	Mar	Apr	May	Jun
Alberta	Not Sig	Not Sig	Not Sig	Mix	Mix	Mix
Arizona	14%	34%	Mix	Not Sig	Mix	7%
Avista	89%	82%	81%	80%	43%	51%
British Columbia	87%	86%	72%	78%	50%	31%
California	Not Sig	Not Sig	Mix	Mix	Mix	30%
CO-UT-WY	-16%	Mix	Mix	-24%	-3%	-6%
Montana	50%	43%	65%	57%	Mix	7%
New Mexico	Not Sig	Mix	Mix	Mix	Mix	Not Sig
North Nevada	62%	22%	7%	Not Sig	Mix	25%
South Idaho	77%	75%	67%	Mix	Mix	32%
South Nevada	37%	59%	Mix	Not Sig	Mix	7%

Table 10.6: July through December Load Area Correlations

Area	Jul	Aug	Sep	Oct	Nov	Dec
Alberta	Not Sig	Not Sig	Not Sig	Not Sig	Not Sig	Not Sig
Arizona	Not Sig	Not Sig	Mix	-7%	Mix	8%
Avista	66%	75%	65%	77%	92%	92%
British Columbia	67%	47%	18%	80%	89%	84%
California	5%	Not Sig	Mix	Not Sig	Mix	Not Sig
CO-UT-WY	-9%	Mix	-2%	-1%	19%	Mix
Montana	14%	15%	8%	7%	76%	76%
New Mexico	Not Sig	Not Sig	Mix	-21%	36%	Not Sig
North Nevada	48%	61%	32%	Not Sig	75%	63%
South Idaho	40%	63%	32%	Mix	86%	88%
South Nevada	7%	37%	Mix	-22%	Mix	63%

¹ The coefficient of determination is the standard deviation divided by the average.

Table 10.7: Area Load Coefficient of Determination (Standard Deviation/Mean)

Area	Jan	Feb	Mar	Apr	May	Jun
Alberta	5.4%	4.6%	5.2%	5.0%	5.5%	6.1%
Arizona	8.8%	8.3%	8.1%	12.3%	16.5%	18.6%
Avista	10.1%	8.8%	10.2%	9.8%	9.7%	11.1%
British Columbia	9.7%	8.7%	9.4%	9.3%	9.7%	9.9%
California	10.6%	10.5%	10.5%	10.8%	12.5%	14.2%
CO-UT-WY	8.6%	8.1%	8.6%	8.6%	10.0%	14.8%
Montana	8.5%	7.3%	8.0%	7.9%	8.2%	10.5%
New Mexico	9.4%	9.1%	9.3%	10.9%	14.5%	15.9%
Northern Nevada	6.3%	6.2%	6.3%	6.4%	7.6%	10.2%
Pacific Northwest	11.0%	9.8%	10.6%	10.1%	9.6%	9.9%
South Idaho	9.5%	8.6%	9.9%	10.5%	11.6%	16.3%
South Nevada	7.3%	6.6%	7.2%	12.5%	17.8%	20.1%

Table 10.8: Area Load Coefficient of Determination (Standard Deviation/Mean)

Area	Jul	Aug	Sep	Oct	Nov	Dec
Alberta	6.5%	6.2%	5.8%	5.6%	5.6%	5.5%
Arizona	16.4%	16.9%	18.1%	15.0%	8.7%	8.3%
Avista	13.9%	13.6%	11.5%	10.1%	11.1%	10.7%
British Columbia	10.8%	10.6%	10.3%	10.3%	11.3%	10.3%
California	14.9%	15.9%	16.0%	12.7%	11.2%	11.0%
CO-UT-WY	14.7%	14.3%	13.1%	9.5%	9.1%	9.3%
Montana	11.1%	10.9%	9.3%	8.4%	8.9%	9.0%
New Mexico	15.0%	14.7%	15.7%	12.2%	10.3%	10.0%
Northern Nevada	11.3%	10.9%	9.8%	6.8%	6.9%	7.3%
Pacific Northwest	11.8%	11.7%	10.8%	10.5%	12.0%	12.0%
South Idaho	12.2%	12.9%	13.5%	9.6%	10.4%	9.9%
South Nevada	17.9%	18.3%	20.0%	14.1%	7.8%	7.8%

Hydroelectric Variation

Hydroelectric generation is the most commonly modeled stochastic variable in the Northwest because historically it has had a larger impact on regional electricity prices than other variables. The IRP uses an 80-year hydroelectric record starting with the 1928/29 water year. Every iteration starts with a randomly drawn water year from the historical record, so each water year is selected approximately 125 times in the study (500 scenarios x 20 years / 80 water year records). There is some debate in the Northwest over whether the hydroelectric record has year-to-year correlation. Avista did not model year-to-year correlation after studying and finding a modest 35 percent correlation over the 80-year record.

Wind Variation

Wind has the most volatile short-term generation profile of any utility-scale resource. Storage, apart from some integration with hydroelectric projects, is not a financially viable alternative at this time. This makes it necessary to capture wind volatility in the power supply model to determine the value of energy storage in the wholesale power

market. Accurately modeling wind resources requires hourly and intra-hour generation shapes. For regional market modeling, the representation is similar to how AURORA^{XMP} models hydroelectric resources. A single wind generation shape represents all wind resources in each load area. This shape is smoother than an individual wind plant, but it closely represents the diversity of a large number of wind farms located across a zone.

This simplified wind methodology works well for forecasting electricity prices across a large market, but it does not accurately represent the volatility of specific wind resources Avista might select as part of its PRS. Therefore individual wind farm shapes form the basis of wind resource options for Avista.

Fifteen potential 8,760-hour annual wind shapes represent each geographic region or facility. Each year contains a wind shape drawn from these 15 representations. The IRP relies on two data sources for the wind shapes. The first is BPA balancing area wind data. The second is NREL-modeled data between 2004 and 2006.

Avista believes an accurate representation of a wind shape across the West requires meeting several conditions:

1. Data correlated between areas using historical data.
2. Data within load areas is auto-correlated.²
3. The average and standard deviation of each load area's wind capacity factor is consistent with the expected amount of energy for a particular area in the year and month.
4. The relationship between on- and off-peak wind energy is consistent with historic wind conditions. For example, more energy in off-peak hours than on-peak hours where this has been experienced historically.
5. Hourly capacity factors for a diversified wind region are never greater than 90 percent due to turbine outages and wind diversity within the area.

Absent these conditions, it is unlikely any wind study provides a level of accuracy adequate for planning efforts. Avista's methodology, first developed for its 2013 IRP, attempts to adhere to the five conditions by first using a regression model based on historic data for each region. The independent variables used in the analysis were month, hour type (night or day), and generation levels from the prior two hours. To reflect correlation between regions, a capacity factor adjustment reflects historic regional correlation using an assumed normal distribution with the historic correlation as the mean. After this adjustment, a capacity factor adjustment accounts four hours with generation levels exceeding a 90 percent capacity factor. Figure 10.12 shows a Northwest example of an 8,760-hour wind generation profile. This example, shown in blue, has a 31 percent capacity factor. Figure 10.13 shows actual 2014 generation recorded by BPA Transmission; in 2014, the average wind fleet in BPA's balancing authority had a 28.1 percent capacity factor.

² Adjoining hours or groups of hours are correlated to each other.

Figure 10.12: Wind Model Output for the Northwest Region

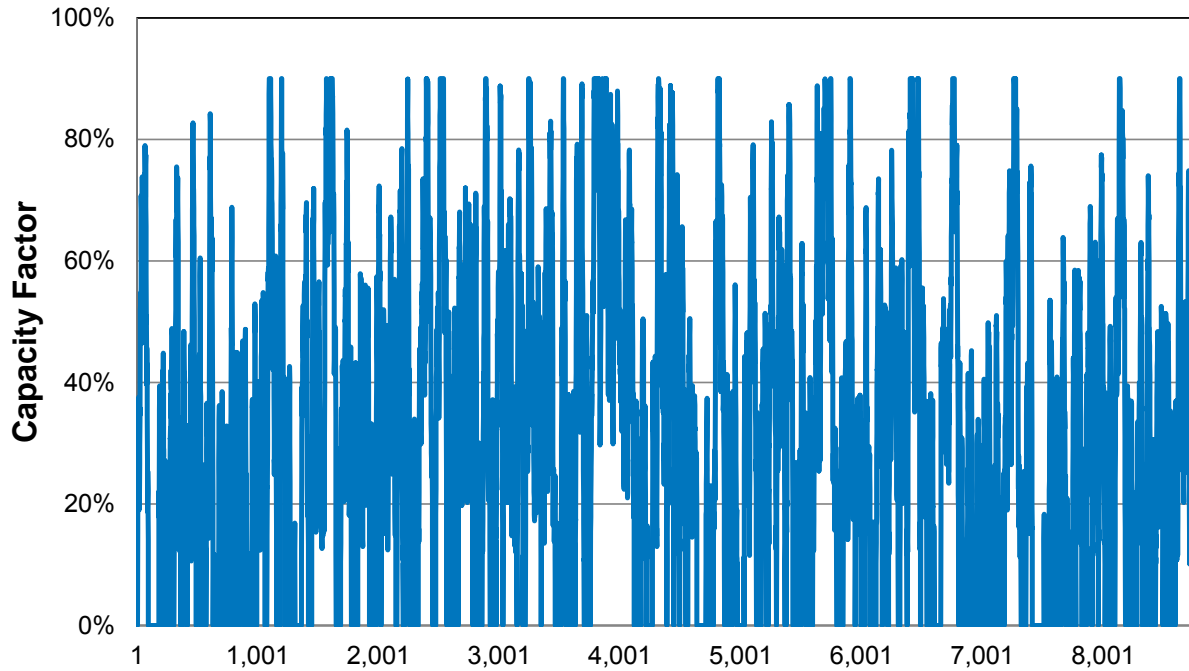
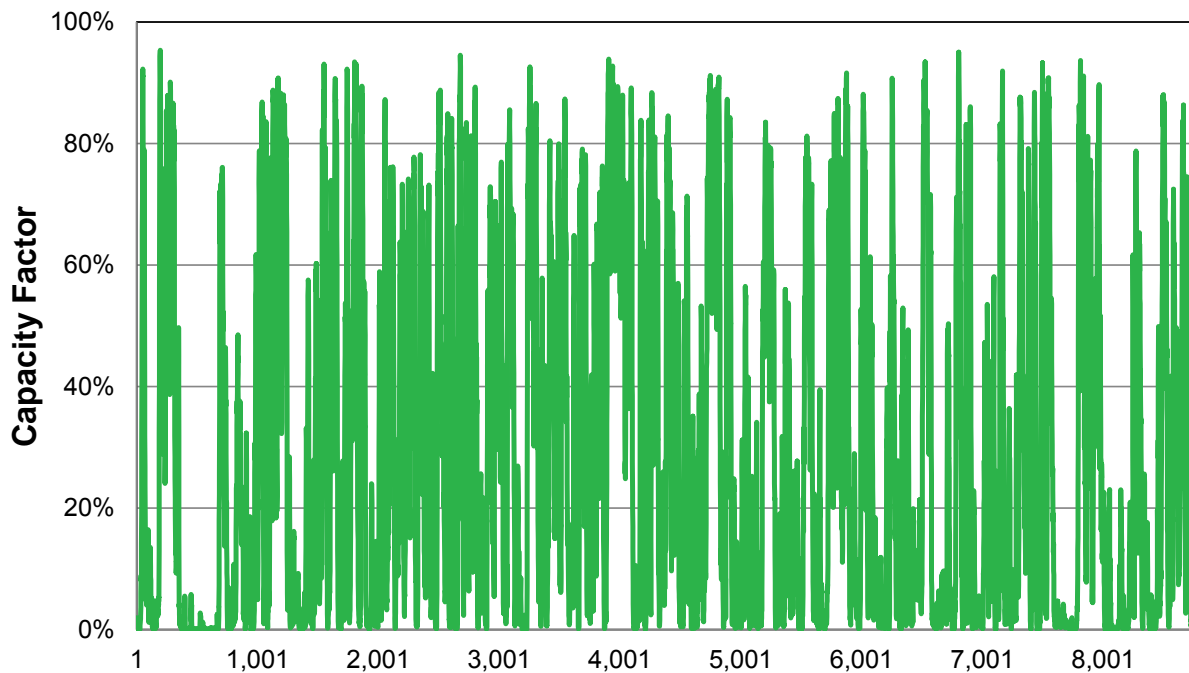


Figure 10.13: 2014 Actual Wind Output BPA Balancing Authority³



There is speculation a correlation exists between wind and hydroelectric generation, especially outside of the winter months where storm events bring both rain to the river

³ Chart data is from the BPA at: <http://transmission.bpa.gov/Business/Operations/Wind/default.aspx>.

system and wind to the wind farms. This IRP does not correlate wind and hydroelectric generation due to a lack of any historical wind data set large enough to test this hypothesis. If correlation exists, it would be optimal to run the model using 80 historical wind years with matching historical water years.

Forced Outages

Most deterministic market modeling represents generator-forced outages with a simple average reduction to maximum capability. This over simplification represents expected values well; however, it is better to represent the system more accurately in stochastic modeling by randomly placing non-hydroelectric units out of service based on a mean time to repair and on an average forced outage rate. Internal studies show this level of modeling detail is necessary only for natural gas-fired, coal, and nuclear plants with generating capacities in excess of 100 MW. Plants under 100 MW on forced outage do not have a material impact on market prices and therefore their outages do not require stochastic modeling. Forced outage rates and mean time to repair data for the larger units in the Western Interconnect come from analyzing the North American Electric Reliability Corporation's Generating Availability Data System (GADS) database.

Market Price Forecast

An optimal resource portfolio cannot ignore the extrinsic value inherent in its resource choices. The 2015 IRP simulation compares each resource's expected hourly output using forecasted Mid-Columbia hourly prices over 500 iterations of Monte Carlo-style scenario analysis.

Hourly zonal electricity prices are equal to either the operating cost of the marginal unit in the modeled zone, or the economic cost to generate and move power another zone to the modeled zone. A forecast of available future resources helps create an electricity market price projection. The IRP uses regional planning margins to set minimum capacity requirements rather than simply summing the capacity needs of individual utilities in the region. This reflects the fact that Western regions can have resource surpluses even where individual utilities are deficit. This imbalance can be due in part to ownership of regional generation by independent power producers, and possible differences in planning methodologies used by utilities in the region.

AURORA^{XMP} assigns market values to each resource alternative available to the PRS, but the model does not itself select PRS resources. Several market price forecasts determine the value and volatility of a resource portfolio. As Avista does not know what will happen in the future, it relies on risk analyses to help determine an optimal resource strategy. Risk analysis uses several market price forecasts with assumptions differing from the Expected Case, or changes the underlying statistics of a study. The modeling splits alternate cases into stochastic and deterministic studies.

A stochastic study uses Monte Carlo analysis to quantify the variability in future market prices, and the resultant impact on individual and portfolios of resources. These analyses include 500 iterations of varying natural gas prices, loads, hydroelectric generation, thermal outages, and wind generation shapes. The IRP includes three

stochastic studies—the Expected Case and a case with the social cost of carbon, and a benchmarking case excluding a cost of carbon.

Mid-Columbia Price Forecast

The Mid-Columbia market is Avista's primary electricity trading hub. The Western Interconnect also has major trading hubs at the California/Oregon Border (COB), Four Corners (corner of northwestern New Mexico), Palo Verde (central Arizona), SP-15 (southern California), NP-15 (northern California) and Mead (southern Nevada). The Mid-Columbia market is usually the lowest cost because of the significant amount of hydroelectric generation assets at the hub, though other markets can be less expensive when Rocky Mountain-area natural gas prices are low and natural gas-fired generation is setting marginal power prices.

Fundamentals-based market analysis is critical to understanding the power industry environment. The Expected Case includes two studies. The first study is a deterministic market view using expected levels for the key assumptions discussed in the first part of this chapter. The second is a risk or stochastic study with 500 unique scenarios based on different underlining assumptions for natural gas prices, load, wind generation, hydroelectric generation, forced outages, and others. Each study simulates the entire Western Interconnect hourly between 2016 and 2035. The analysis used 29 central processing units (CPUs) linked to a SQL server, creating over 45 GB of data in 3,000 CPU-hours.

Figure 10.14 shows the Mid-Columbia stochastic market price results with horizontal bars representing the 10th to 90th percentile range for annual prices, the diamonds show the average prices, and the arrows represents the 95th percentile. The 20-year nominal levelized price is \$38.48 per MWh. Table 10.9 shows the annual averages of the stochastic case on-peak, off-peak, and levelized prices. Spreads between on- and off-peak prices average \$7.78 per MWh over 20 years. The 2013 IRP annual average nominal price was \$44.08 per MWh. The reduction in pricing is a result of lower natural gas prices, lower loads, and higher percentages of new lower-heat-rate natural gas plants.

Figure 10.14: Mid-Columbia Electric Price Forecast Range

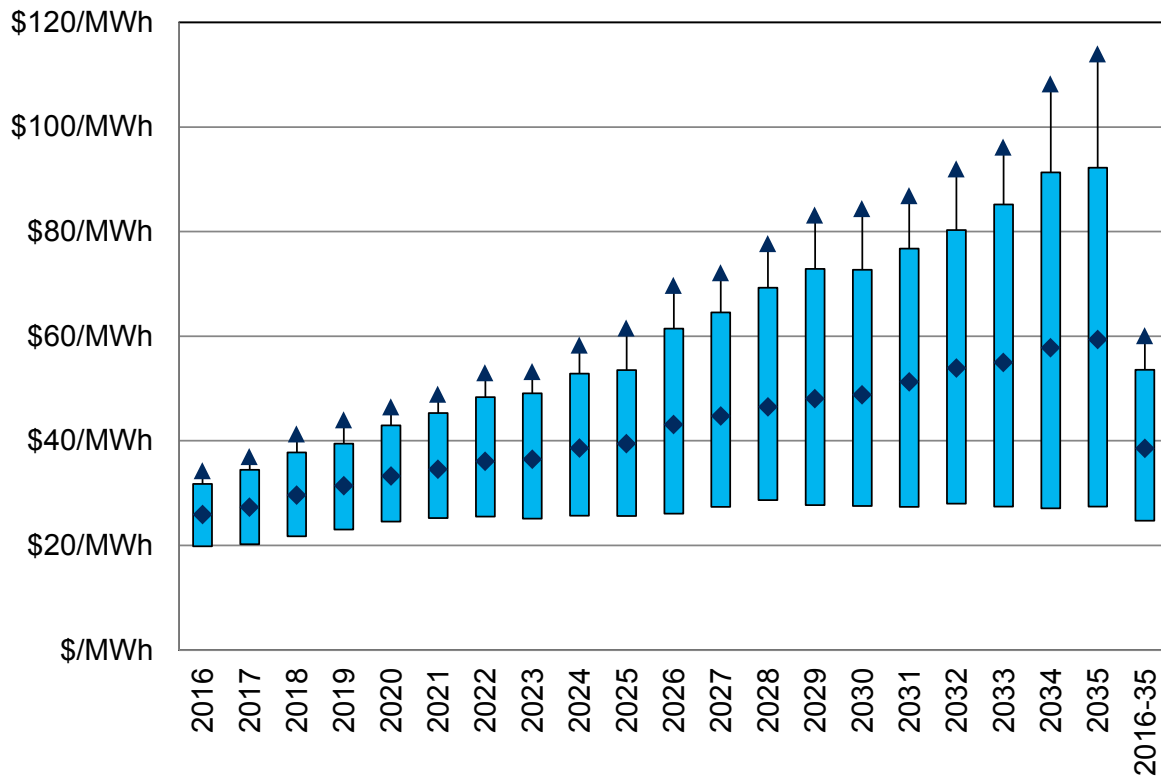


Table 10.9: Annual Average Mid-Columbia Electric Prices (\$/MWh)

Year	Flat	Off-Peak	On-Peak
2016	25.87	21.62	29.05
2017	27.27	23.03	30.47
2018	29.59	25.18	32.90
2019	31.40	26.83	34.82
2020	33.25	28.94	36.48
2021	34.54	30.21	37.79
2022	36.05	31.70	39.30
2023	36.43	32.17	39.64
2024	38.60	34.27	41.85
2025	39.42	35.18	42.59
2026	43.12	38.80	46.36
2027	44.72	40.23	48.08
2028	46.48	42.09	49.79
2029	48.01	43.51	51.39
2030	48.79	44.32	52.14
2031	51.23	46.52	54.76
2032	53.90	48.98	57.58
2033	54.98	49.95	58.74
2034	57.77	52.65	61.64
2035	59.33	54.12	63.24
Levelized	\$38.48	\$34.03	\$41.81

Greenhouse Gas Emission Levels

Greenhouse gas levels decline as natural gas prices decrease and coal plants react by dispatching for fewer hours in the year or retire. This IRP includes a ten percent probability of a carbon price and includes reductions consistent with EPA's CPP goal for 2030. This forecast also includes cap-and-trade costs in California and carbon taxes in the Canadian provinces. Further discussion of carbon policy is in Chapter 7 – Policy Considerations. Figure 10.15 shows historic and expected greenhouse gas emissions for the Western Interconnect. Greenhouse gas emissions from electricity generation decrease 6.4 percent between 2016 and 2035, and 2016 is 12 percent lower than 2012. The figure also includes 10th and 90th percentile statistics from the 500-iteration dataset. The higher and lower bands show where emissions could land depending upon changes in hydroelectric generation, load, resource availability and other factors. The reduction drivers are lower load forecasts, lower natural gas prices, higher RPS requirements in some states, and forecasted coal-fired generation retirements due to federal and state regulations, and carbon pricing. Further, emissions from plants covered under the CPP fall by 28 percent as shown in the green line, but new plants emissions covered under the CPP offset much of this reduction.

Figure 10.15: Western States Greenhouse Gas Emissions

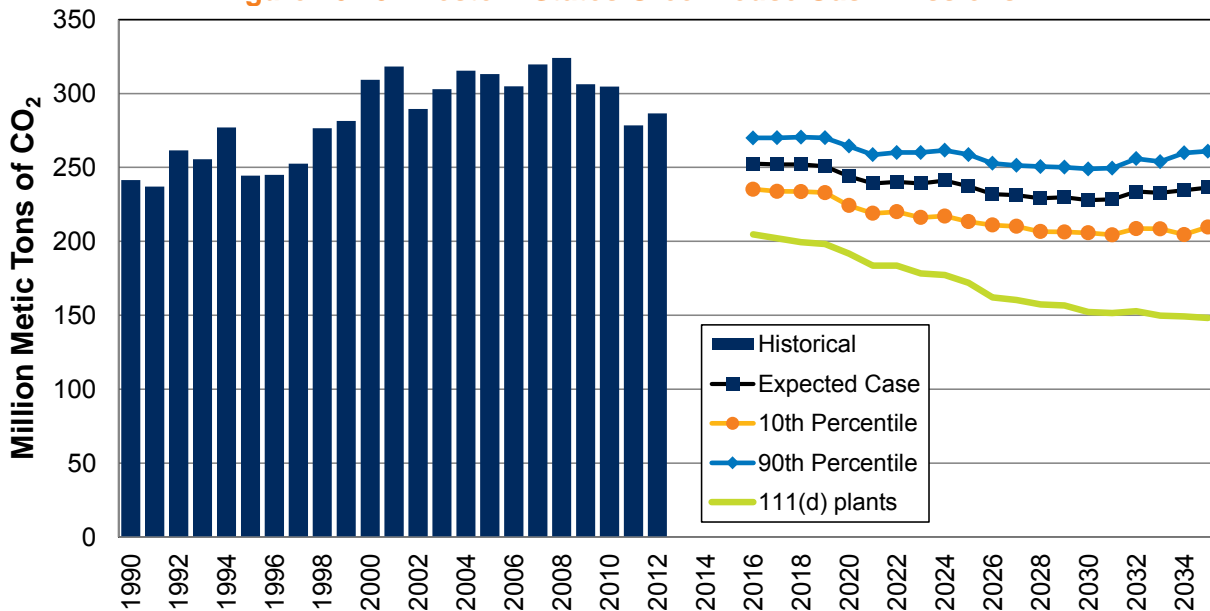


Figure 10.16 illustrates this forecast’s emissions rate for EPA regulated plants compared to EPA’s CPP goal for each year. The Expected Case estimates the west will meet the 2030 goal by 2026; and by 2035, emissions are below the 801 lbs/MWh goal (681 lbs/MWh). Certain states, including Arizona, Colorado, Washington, and Wyoming, likely will exceed the goal. See Figure 10.17. If the final rule implements as the draft proposal, these state will need to take additional action, as described later in this chapter.

Figure 10.16: EPA’s CPP Annual Emissions Intensity for the West

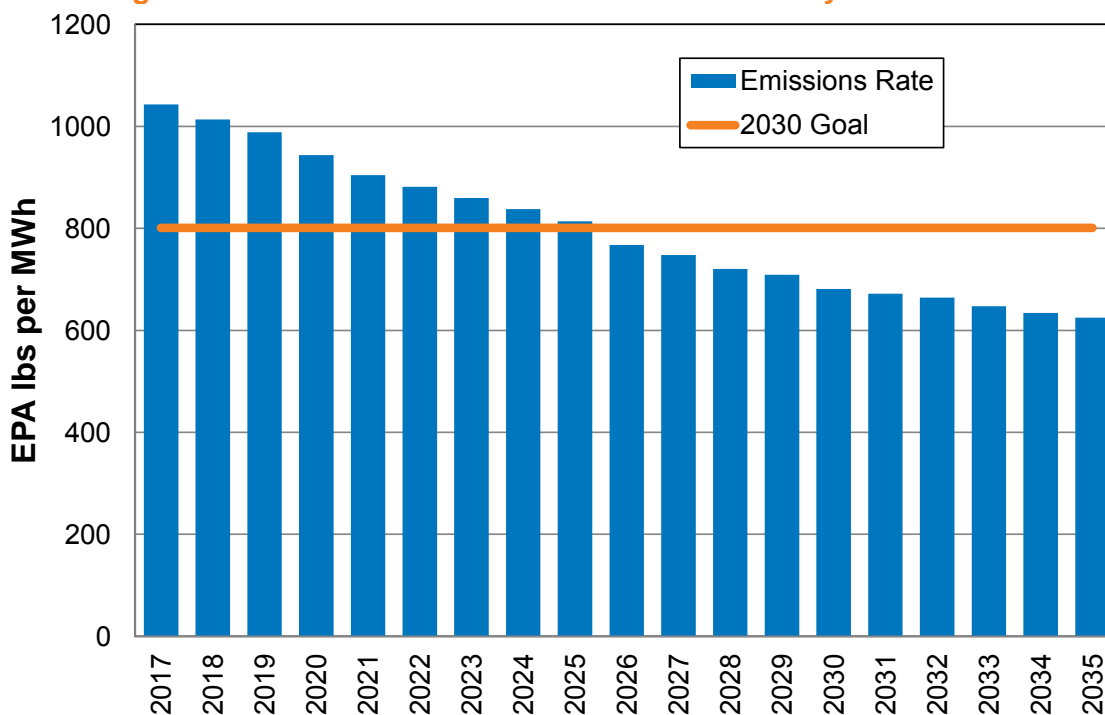
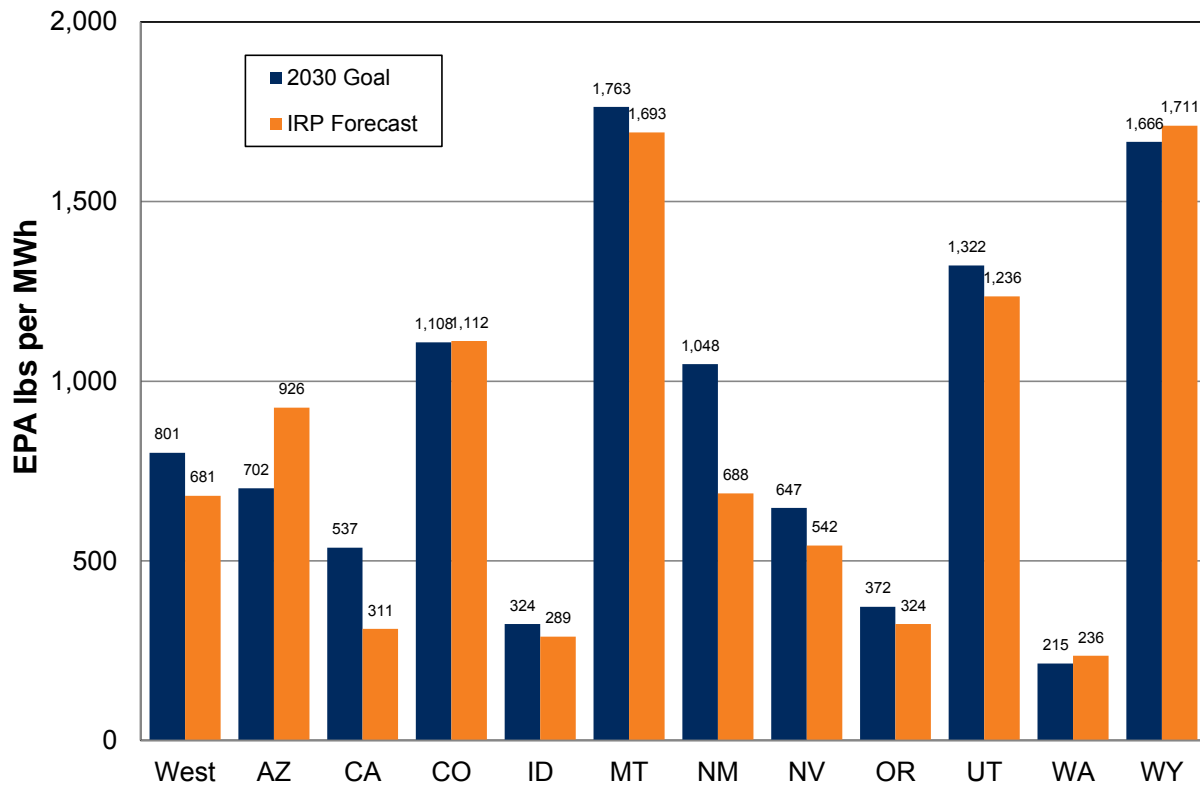


Figure 10.17: EPA's CPP 2030 State Goal vs. Modeling Result

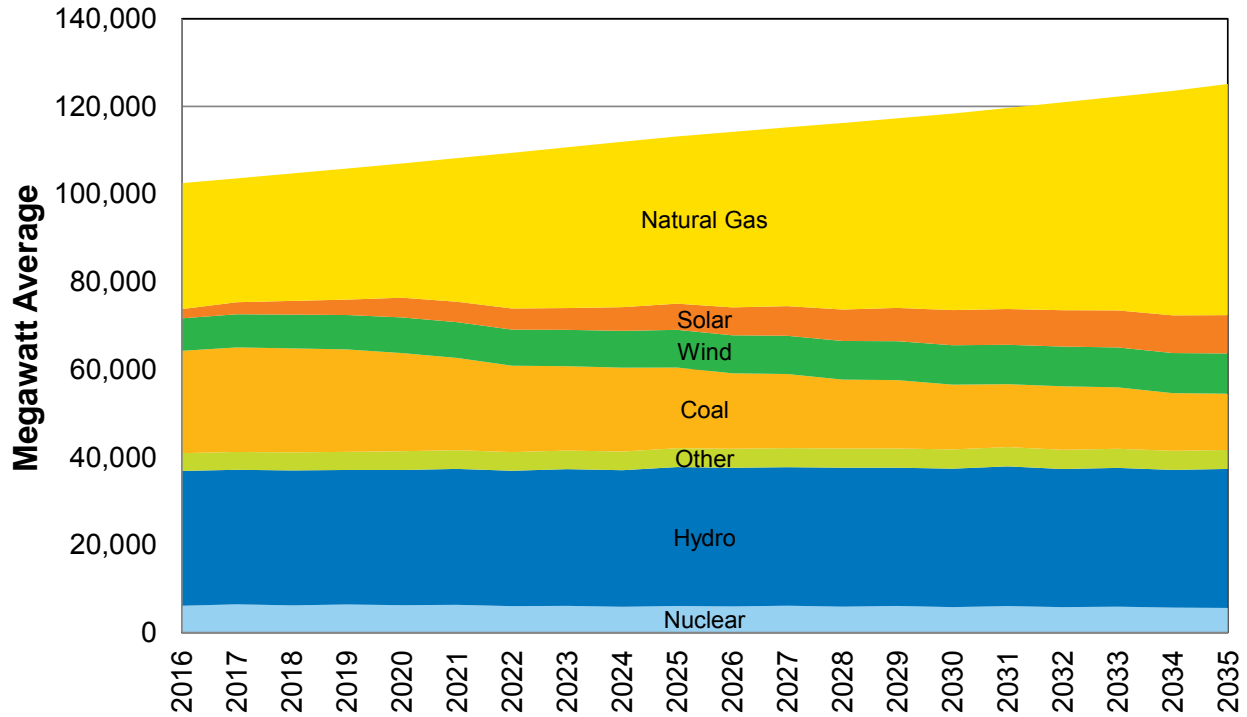


Resource Dispatch

State-level RPS goals and greenhouse gas regulations change resource dispatch decisions and affect future power prices. The Northwest already is witnessing the market-changing effects of a more than 7,750 MW wind fleet. Figure 10.18 illustrates how natural gas will increase its contribution as a percentage of Western Interconnect generation, from 28 percent in 2016 to 42 percent 2035. The increase offsets coal-fired generation, with coal dropping from 22 percent in 2016 to 10 percent in 2035. Utility-owned solar and wind generation increase from 9 percent in 2016 to 14 percent by 2035. New renewable generation sources also reduce coal-fired generation, but natural gas-fired generation is the primary resource meeting load growth.

Public policy changes encouraging renewable energy development may reduce greenhouse gas emissions on a market scale, but they also change electricity marketplace fundamentals. On the present trajectory, policy changes are likely to move the generation fleet toward natural gas, with its currently low but historically volatile prices. These policies will displace low-cost coal-fired generation with higher-cost renewables and natural gas-fired generation having lower capacity factors (wind) and higher marginal costs (natural gas). Stranded coal plant investments likely will increase the overall cost of electricity. Further, wholesale prices likely will increase with the effects of the changing resource dispatch driven by carbon emission limits and renewable generation integration. New environmental policy-driven investments, combined with higher market prices, will necessarily lead to higher than otherwise retail rates absent greenhouse gas reduction policies.

Figure 10.18: Base Case Western Interconnect Resource Mix



Scenario Analysis

Scenario analysis evaluates the impact of specific changes in underlying market assumptions, Avista’s generation portfolio, and new generation resource options’ values. In addition to the Expected Case, this IRP includes three other stochastic analyses. The Benchmark Case removes the carbon price and relaxes assumptions on meeting the CPP goal. This scenario provides the data used to calculate the impact of the environmental policies included in the Expected Case. The second scenario assumes all four Colstrip units retire by the end of 2026. This scenario facilitates a portfolio study to estimate the impacts of an early closure at Colstrip. The third scenario looks at the added costs and associated reductions in greenhouse gas emissions if the social cost of carbon was included in the market price analysis. Deterministic studies model the impacts of state-by-state CPP compliance.

Benchmark Scenario

The Benchmark Scenario removes the 10 percent probability of a carbon adder in 2020 and relaxes assumptions in meeting the CPP targets. The resulting flat levelized price for this scenario is \$38.12 per MWh, or a reduction of \$0.39 per MWh from the Expected Case. Figure 10.19 shows the annual flat prices compared to the Expected Case. This scenario has similar prices as the Expected Case. The levelized cost of the carbon adder in the Expected Case was \$1.15 per metric ton. While the emissions penalty was small in this case, Western Interconnect emissions increase 2.3 percent by 2035. The tradeoff for the lower emissions in the Expected Case versus this scenario is \$30 million of higher (levelized) costs each year. Figure 10.20 shows the annual greenhouse gas emissions for the Western Interconnect in the Benchmark Scenario.

Figure 10.19: Annual Mid-Columbia Flat Price Forecast Benchmark Scenario

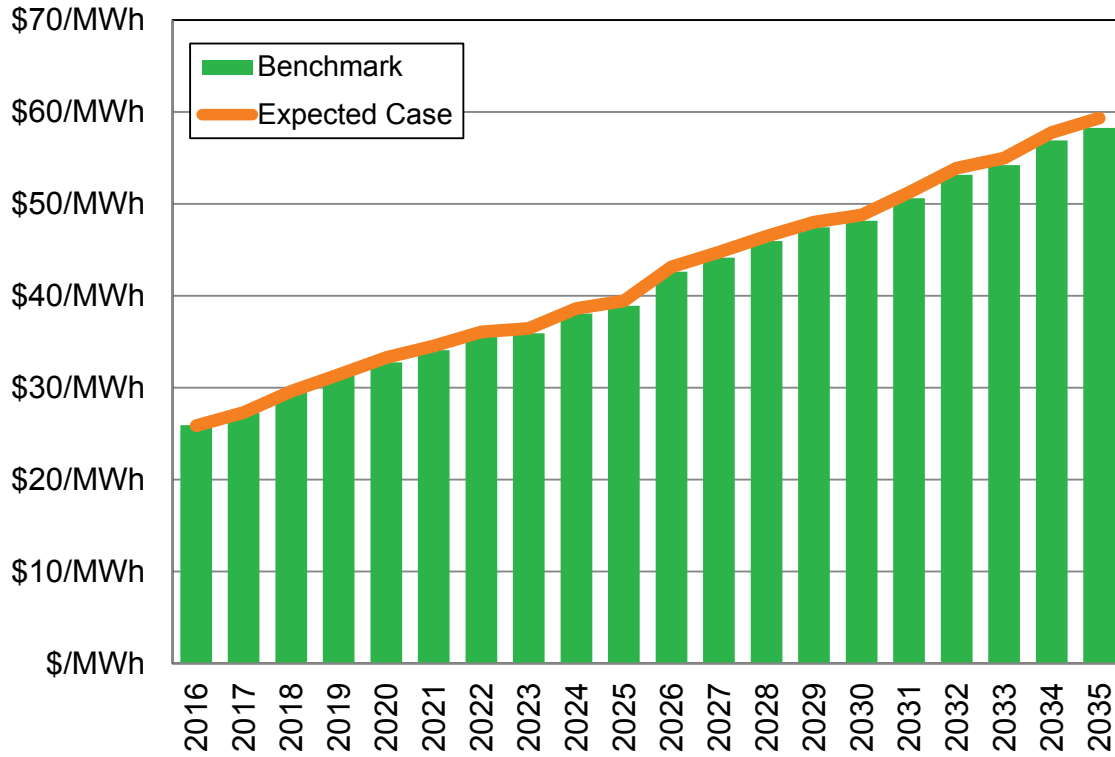
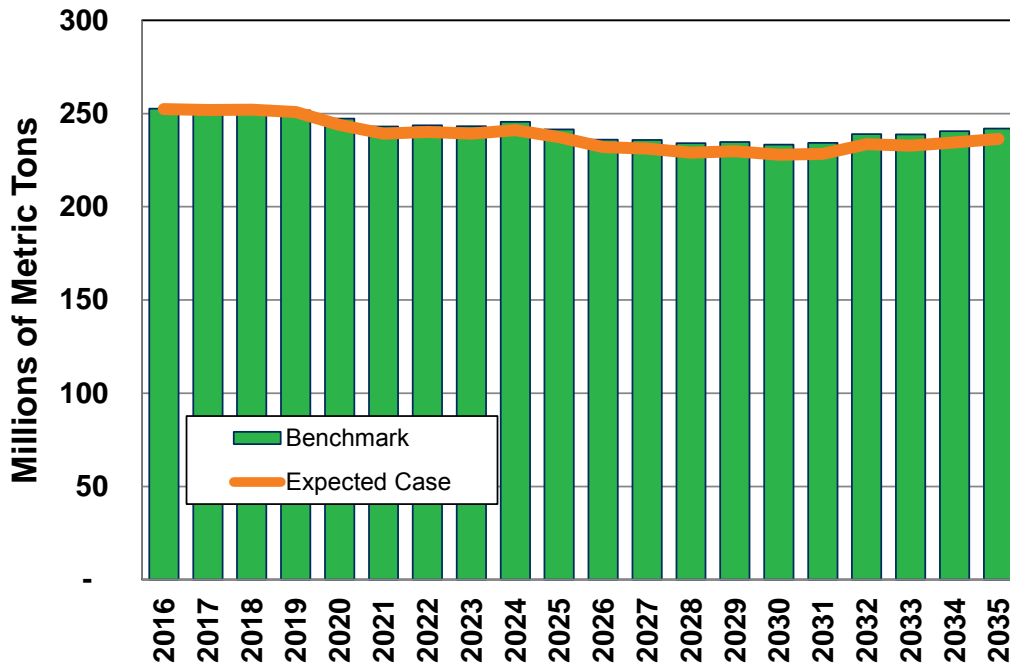


Figure 10.20: Benchmark Scenario Annual Western U.S. Greenhouse Gas Emissions



No Colstrip Scenario

The No Colstrip Scenario models the implications of retiring Colstrip on Avista’s portfolio. The scenario values new resource options and the remaining portfolio in a marketplace without Colstrip. In addition, this scenario provides data about the regional financial impacts of a Colstrip closure, rather than just the impact to Avista from divestment of its share. This scenario assumes the site redevelops with several large CCCT plants upon retirement in 2026. It does not attempt to represent the feasibility of replacement on site, but rather helps understand the impacts to the overall market place by replacing Colstrip with a CCCT. Without Colstrip, regional market prices increase slightly as shown in Figure 10.21. There are small differences beginning in 2027 with a \$0.93 per MWh annual average price difference. While these price changes are small, it assumes the average price over a year in average water conditions. At times, the price impacts are larger. Further, without replacement capacity, price impacts and reliability concerns increase. Beginning in 2027, the annual cost to all western customers increases by \$651 million or 2.6 percent in the No Colstrip scenario. Without Colstrip, greenhouse gas emissions should decrease; in 2035 emissions in this scenario were 3.2 percent lower, or nearly 9.3 million metric tons per year as shown in Figure 10.22. Given the increased cost and associated emissions reductions, the implied price of carbon reduction at Colstrip is \$74.17 per metric ton in 2027; the average price between 2027 and 2035 is \$73.18 per metric ton.

Figure 10.21: Annual Mid-Columbia Flat Price Forecast Colstrip Retires Scenario

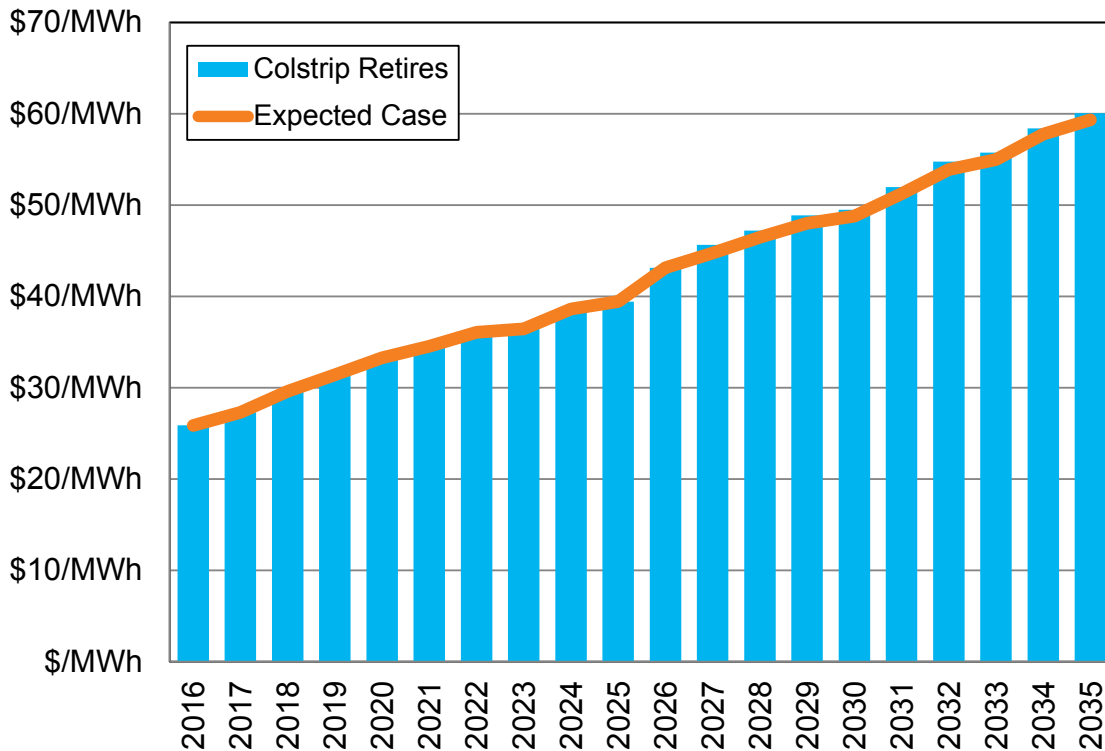
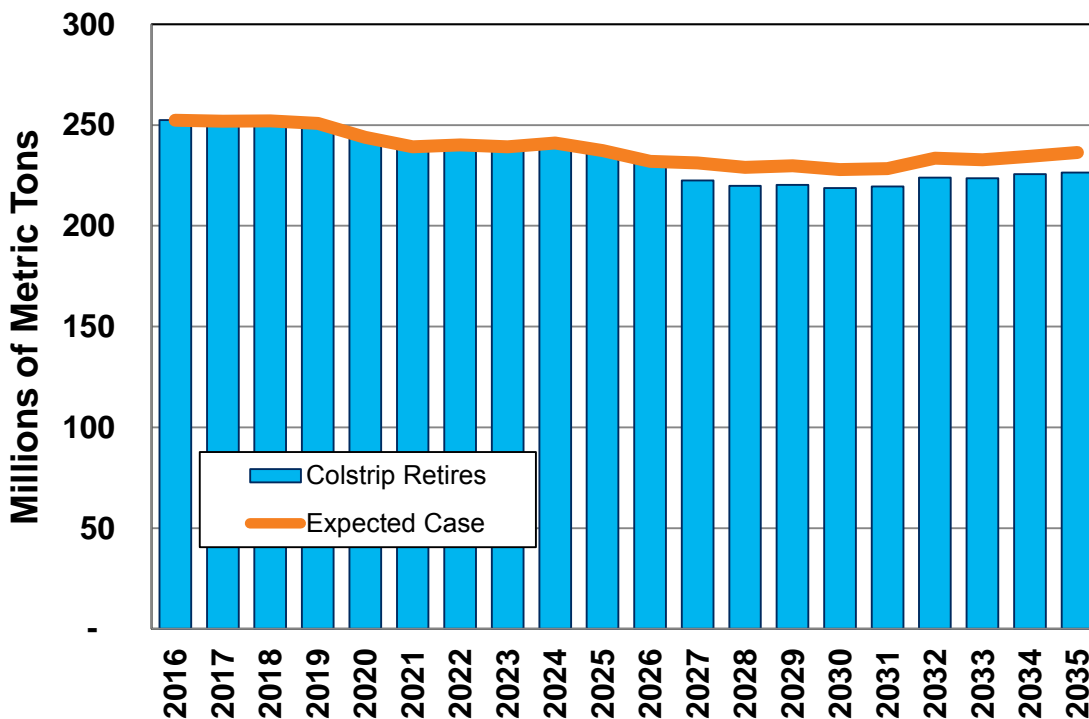


Figure 10.22: No Colstrip Scenario Annual Western U.S. Greenhouse Gas Emissions



Social Cost of Carbon Scenario

For the past several IRPs Avista has conducted carbon emission pricing scenarios. For this IRP, the TAC recommended Avista use the Social Cost of Carbon pricing for a scenario. The Social Cost of Carbon study prices use data from a study conducted by the EPA. The prices from this study range depending on the discount rate assumed and the point on the probability curve. Avista chose to use the five percent discount rate study with a starting price of \$11 per metric ton in 2010 (2007 dollars). Figure 10.23 charts the nominal prices per metric ton. The levelized price is \$19.31 per metric ton, approximately 18 times the carbon cost assumed in the Expected Case. These prices do not vary in each of the 500 iterations.

With a Social Cost of Carbon adder, the impact to Mid-Columbia prices is more apparent. The levelized price increases to \$45.46 per MWh, or 18 percent higher than the Expected Case as shown in Figure 10.24. The added pricing to emissions also increases power costs by \$3.6 billion (17.2 percent) across the U.S. west. In exchange for the added costs, emissions fall 9.6 percent or 25 million metric tons by 2035. See Figure 10.25.

Figure 10.23: Social Cost of Carbon Scenario Emission Prices

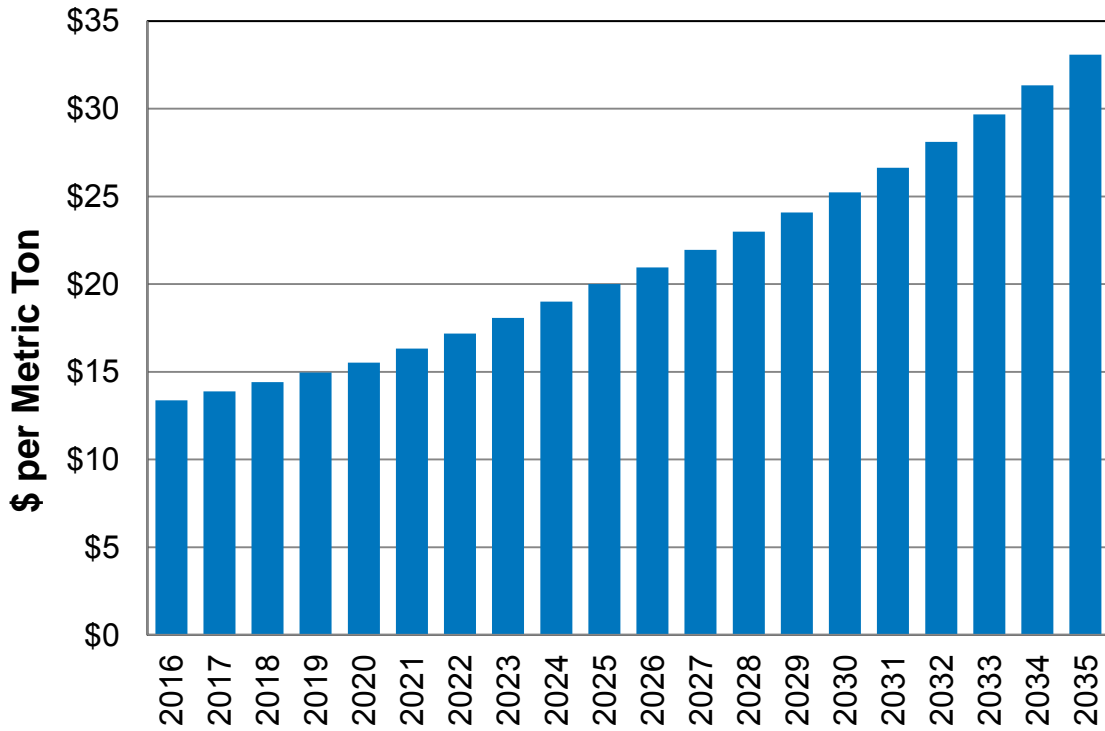


Figure 10.24: Annual Mid-Columbia Flat Price Forecast Social Cost of Carbon Scenario

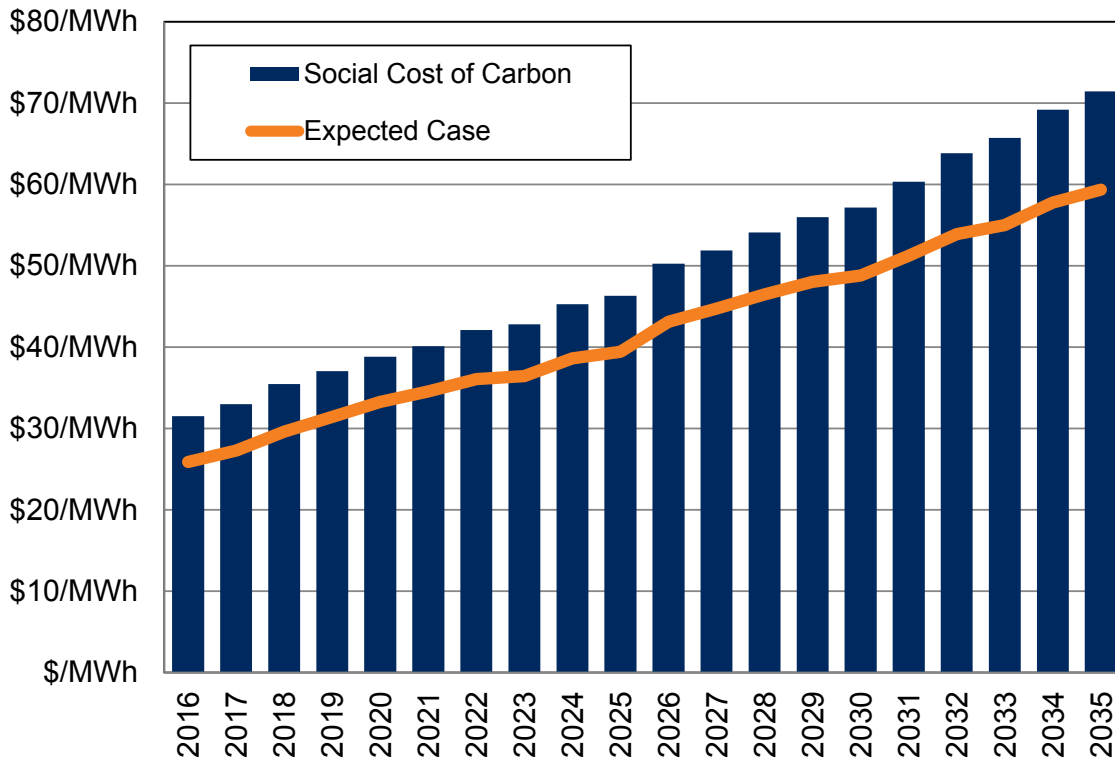
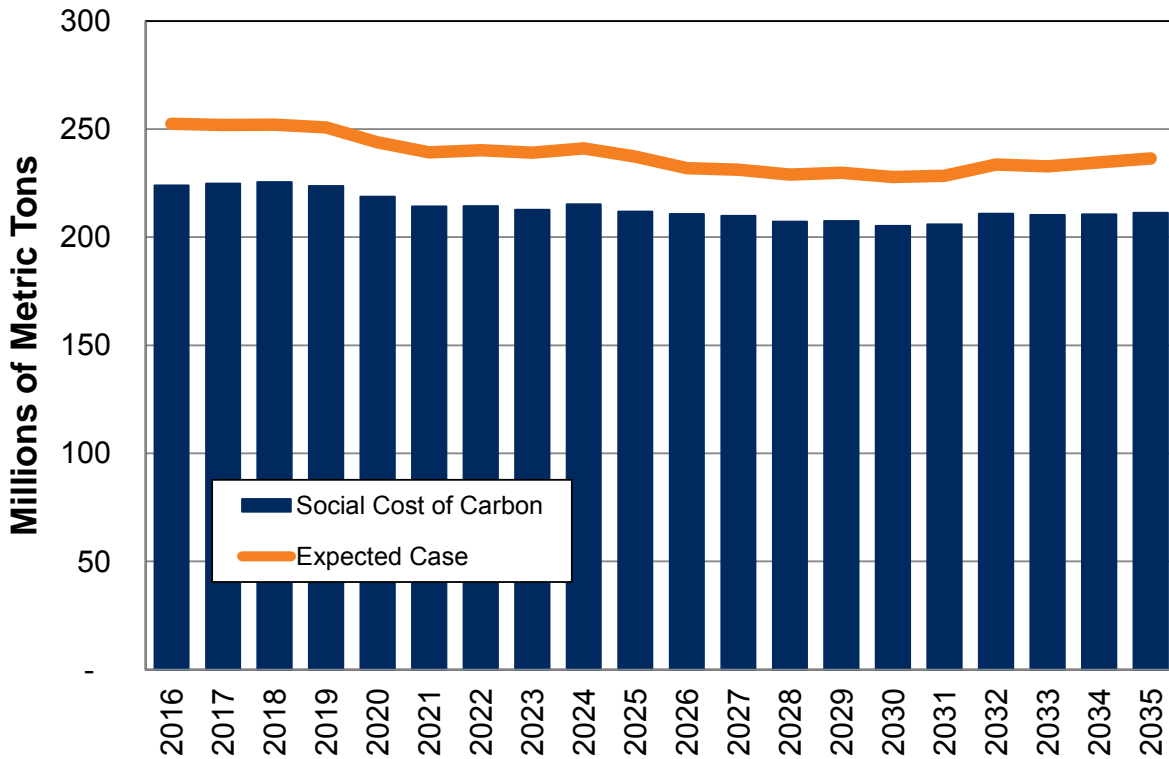


Figure 10.25: Social Cost of Carbon Scenario Western US Greenhouse Gas Emissions



Clean Power Plan Scenarios

This IRP analyzes implications of the CPP by first looking at its requirements on a state-by-state basis instead of a regional basis as is assumed in the Expected Case. This scenario was studied on a deterministic basis rather than the full 500 stochastic iterations, because some of the stochastic variables have a large impact on emissions. Because emissions are very dependent on some of the stochastic assumptions (e.g., hydroelectric), a low water year is tested. To meet the 2020 CPP goal each state would have to change its system; for example, any planned coal retirement beyond 2020 would accelerate to 2019, and some states would need to increase conservation and renewable resource acquisitions. Further, states may apply a price on carbon emissions. For example, Northwest states would require a modest price of \$1.25 per short ton in an average water year to reduce emissions with a price on carbon, even with the early closure of Centralia 1 & 2 and Boardman by the end of 2019. Other states, such as Colorado and Arizona, would require prices near \$20 per short ton.

Figure 10.26 shows the Mid-Columbia flat annual price. The levelized price is \$39.06 per MWh or 1.6 percent higher than the Expected Case’s deterministic study. This is not a large increase because the average price of carbon across the west is actually lower than in the Expected Case, but since fewer coal resources are available, the price is higher. In 2020, the year with the largest price change, the difference is \$1.59 per MWh or an increase of 4.7 percent.

The system cost of the Western electrical system requires review to understand the impacts of a state-by-state CPP scenario. The levelized cost increase is \$342 million per year (1.7 percent), and increases \$1.2 billion (7.6 percent) in 2020. This added cost yields an emissions reduction relative to the Expected Case of 19 percent in 2020, and nine percent in 2035, as shown in Figure 10.27. The amount of reduction compared to the Expected Case comes from earlier retirement of coal resources causing the early emissions drop, and reductions toward the end of the study from additional renewable resources and higher carbon pricing. The emissions increase because conservation grows enough over time to offset the need to reduce emissions from generation.

Figure 10.26: CPP as Proposed Scenario Flat Mid-Columbia Electric Prices

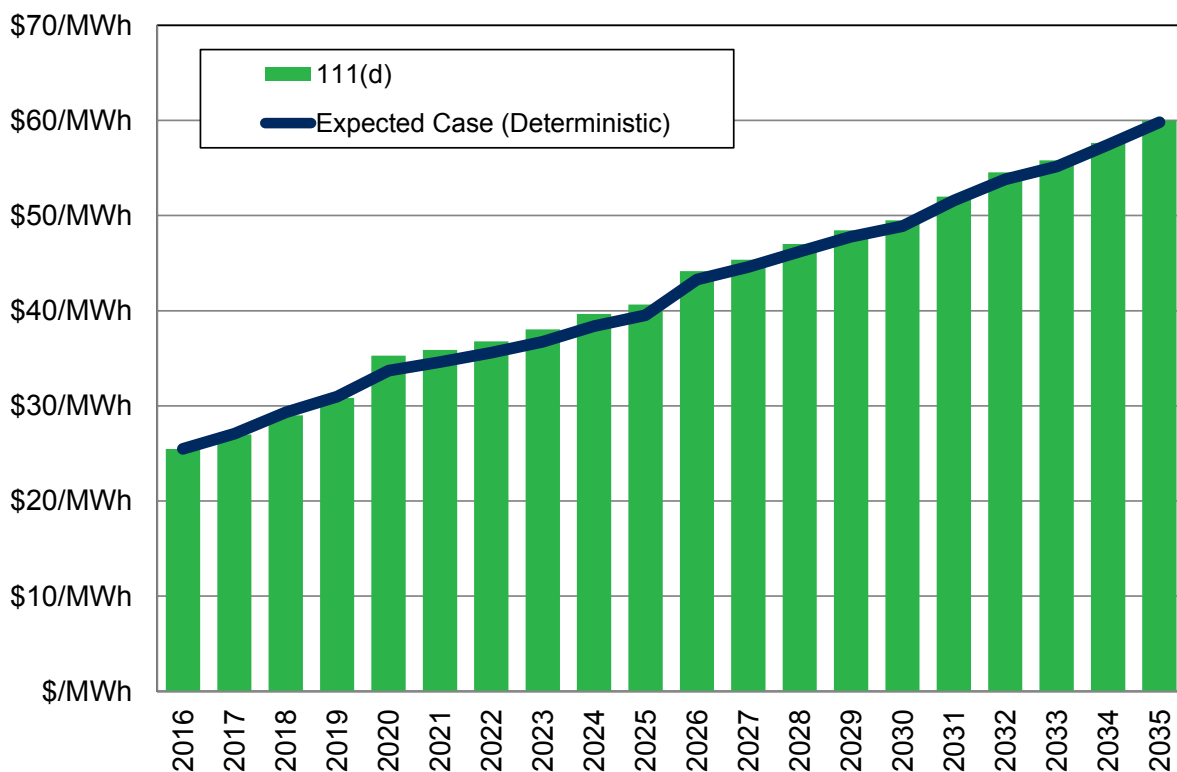
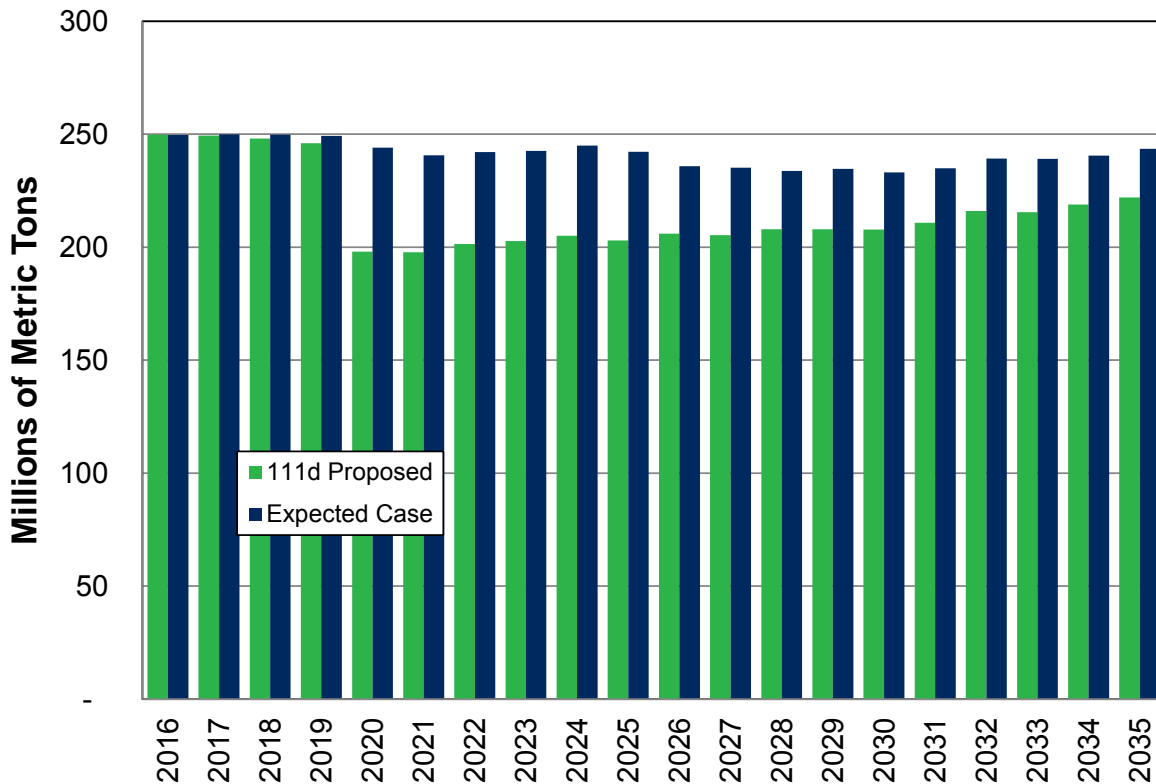


Figure 10.27: CPP as Proposed Scenario Western Greenhouse Gas Emissions

This impact of the CPP to the Northwest has a significant impact on the timing of new resources to replace early-retired coal resources. It would require carbon pricing unless using other CPP building blocks. All of these issues are minimal compared to a low water year in the Northwest. In low water years, decreased hydroelectric production requires the region's natural gas and coal-fired resources to dispatch more and reduces regional exports and associated revenues.

The low water year environment requires higher carbon prices to reduce emissions compared to the average water year. To test this hypothesis, this study uses the water conditions from 1941 representing a 10th percentile water year. In this case, the carbon prices required for the Northwest states are:

- Washington: \$18/ton (2020), \$18/ton (2030)
- Oregon: \$19/ton (2020), \$15/ton (2030)
- Idaho: \$23/ton (2020), \$14/ton (2030)

The required carbon price changes as the amount of conservation increases, lowering the reliance on the remaining generating fleet to meet the CPP goal. The cost impact of this regulation in a lower water year can also be very high if the water conditions are less than average beginning in 2020. For example, Figure 10.28 demonstrates the financial impact of the low water year; in 2020, the costs are \$1.6 billion higher (9 percent) as compared to a low water year without the CPP requirement. In 2030, as

conservation ramps up and if a poor water year occurs; the added costs decrease to \$137 million or 0.4 percent higher. Electric market prices at the Mid-Columbia also have similar impacts. Figure 10.29 illustrates the increases of the CPP in the 1941 water year and illustrates increases in prices compared to the average water year from the Expected Case. In 2020, the added regulation increases prices by \$6.10 per MWh or 17 percent compared to the case without the regulation in the poor water year. Over time, the impact decrease to approximately five percent in 2035. Given the timing of a poor water year is unknown, the levelized price impact of \$4.76 per MWh (10.3 percent) is the best indicator of the added price to the Northwest market.

Figure 10.28: CPP as Proposed Scenario 1941 Water Year Annual Costs

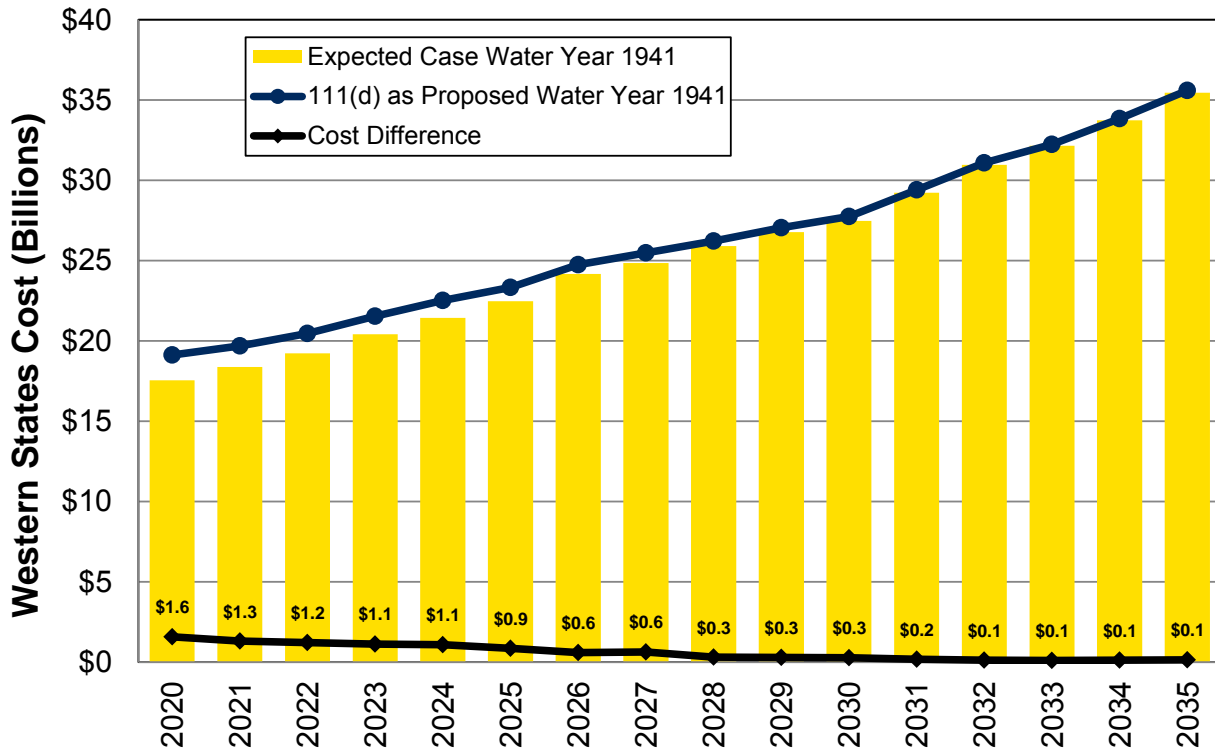
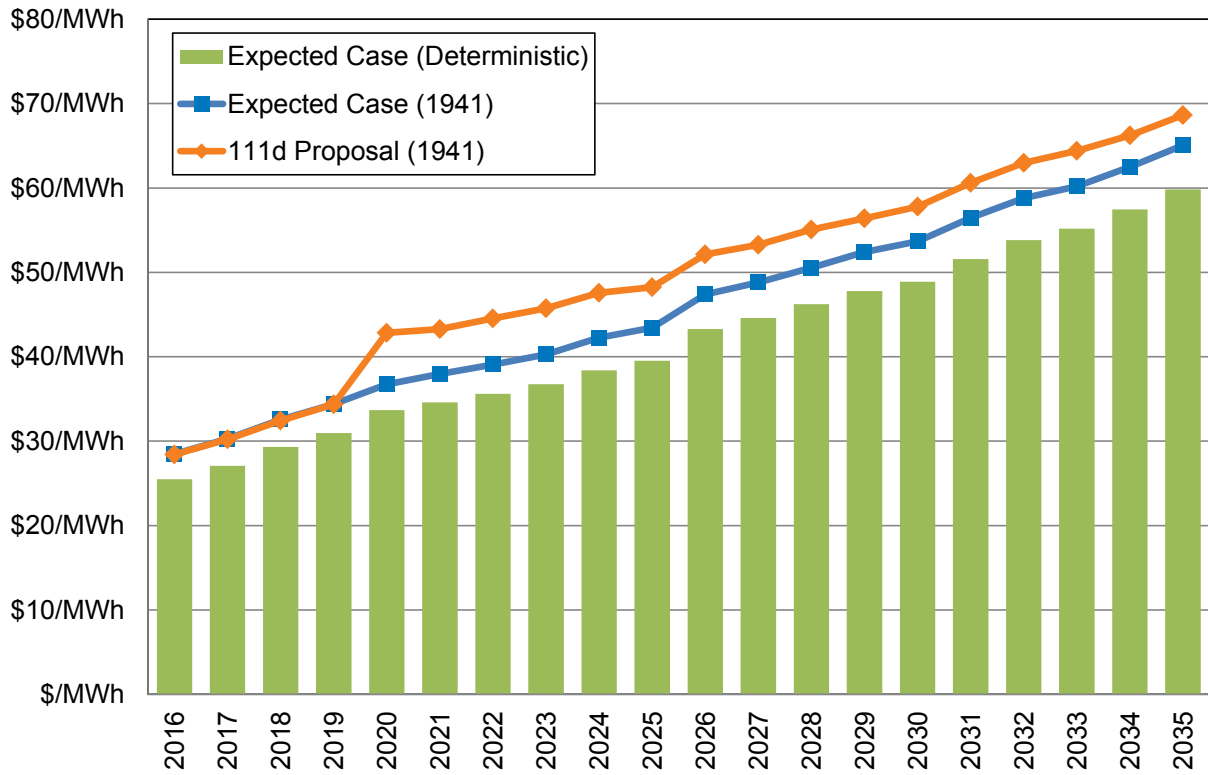


Figure 10.29: CPP as Proposed 1941 Water Year Scenario Mid-Columbia Electric Prices



11. Preferred Resource Strategy

Introduction

The PRS chapter describes potential costs and financial risks of the new resource and conservation strategy Avista plans to meet future requirements over the next 20 years. This chapter explains the decision making process used to select the PRS, and the resulting avoided costs used to target future conservation.

The 2015 PRS describes a reasonable low-cost plan along the efficient frontier of potential resource portfolios accounting for fuel supply, regulatory, and price risks. Major changes from the 2013 plan include less energy efficiency, the elimination of the demand response resource, and a natural gas-fired peaker. The plan calls for upgrades to Avista's thermal generating fleet. The strategy's lower energy efficiency level is due to lower avoided costs, and increased codes and standards reducing some of the need for utility-sponsored acquisition. The reduction in natural gas-fired resources results primarily from a lower retail load forecast. Demand response is no longer in the PRS, as estimated costs from the third-party assessment were higher than alternative resources. Like the prior plan upgrades at existing facilities look attractive as a resource alternative. Overall, the 2015 PRS performs better against the efficient frontier than the 2013 strategy.

Section Highlights

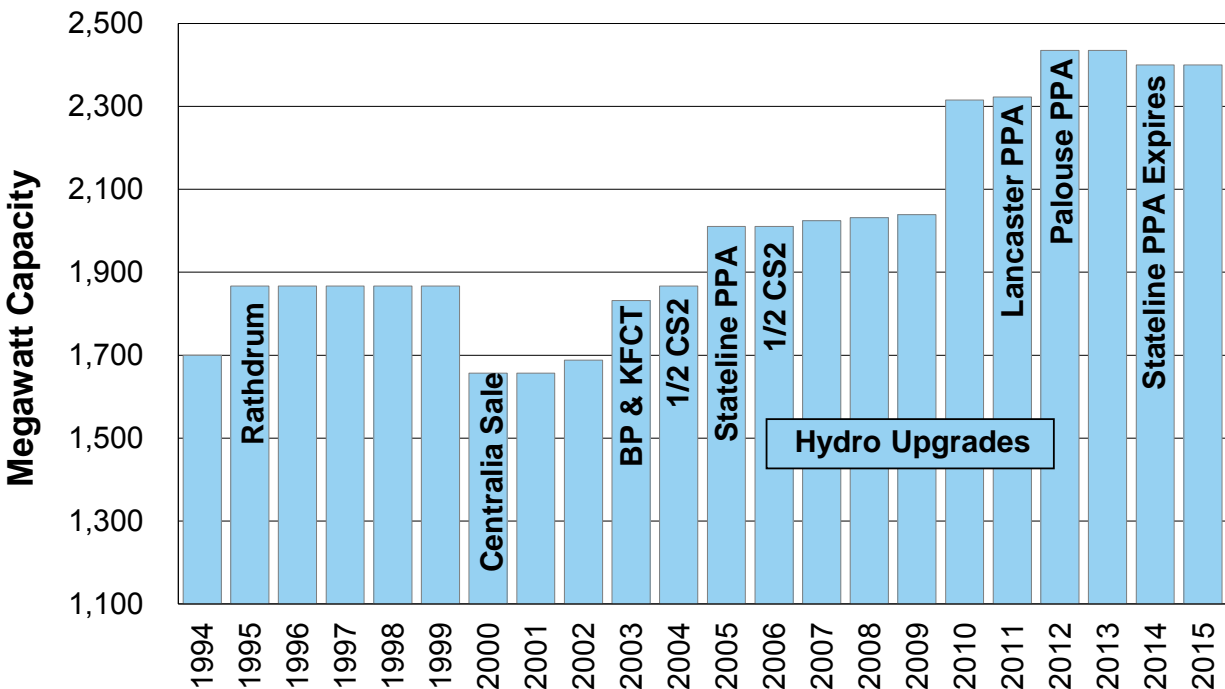
- Avista's first anticipated resource acquisition is a natural gas-fired peaker by the end of 2020 to replace expiring contracts and serve growing loads.
- A combined cycle combustion turbine replaces the Lancaster Facility when its contract ends in 2026.
- Upgrades to existing facilities help meet resource deficits.
- Energy efficiency offsets 52 percent of projected load growth through the 20-year IRP timeframe.

Supply-Side Resource Acquisitions

Avista began its shift away from coal-fired resources with the sale of its 210 MW share of the Centralia coal plant in 2000. Natural gas-fired plants replaced it. See Figure 11.1. Since the Centralia sale, Avista has made several generation acquisitions and upgrades, including:

- 25 MW Boulder Park natural gas-fired reciprocating engines (2002);
- 7 MW Kettle Falls natural gas-fired CT (2002);
- 35 MW Stateline wind power purchase agreement (2004 – 2014);
- 56 MW (total) hydroelectric upgrades (through 2012);
- 270 MW natural gas-fired Lancaster Generation Station tolling agreement (2010 – 2026);
- 105 MW Palouse Wind power purchase agreement (2012 – 2042); and
- 16 MW Nine Mile Falls Upgrade (2016)

Figure 11.1: Resource Acquisition History



Resource Deficiencies

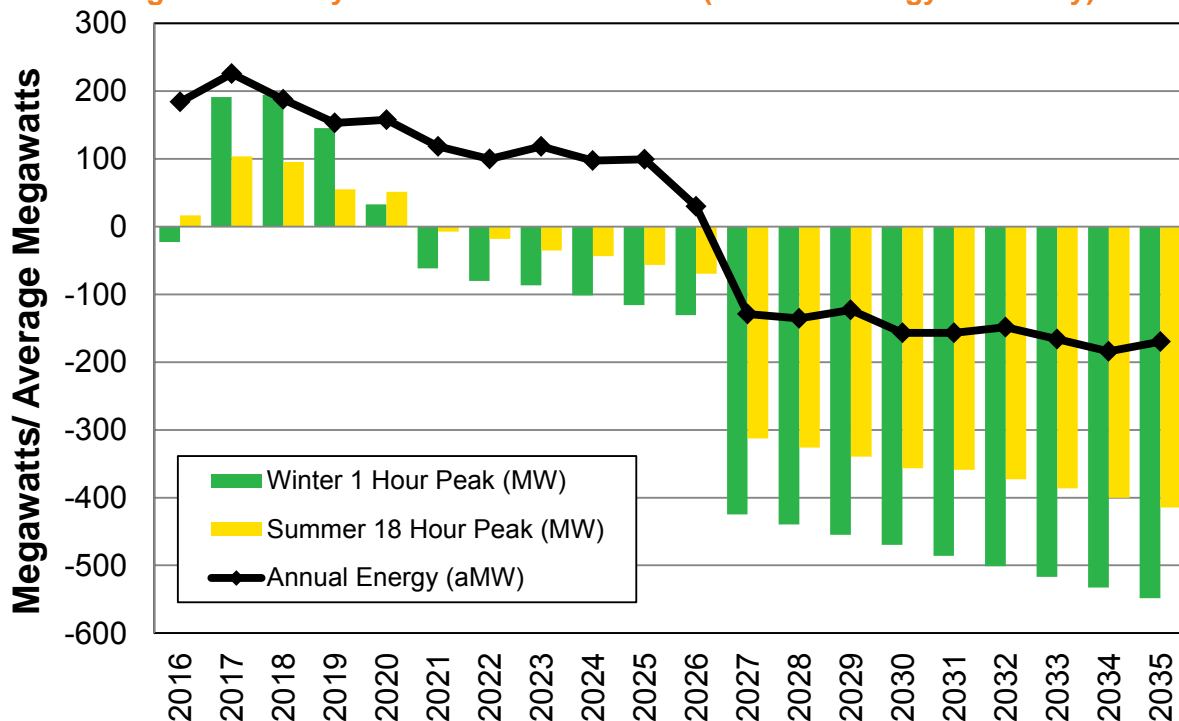
Avista uses a single-hour and a three-day, 18-hour (6 hours each day), peak event methodology to measure resource adequacy. The three-day 18-hour, methodology assures energy-limited hydroelectric resources can meet multiday extreme weather events.

Avista considers the regional power surplus in its planning, consistent with the NPCC's forecast, and does not intend to acquire long-term generation assets while the region is significantly surplus. Currently NPCC research indicates the region is long on capacity through 2020 during the winter and forecasts no summer resource deficits.

Avista's peak planning methodology includes operating reserves, regulation, load following, wind integration and a planning margin. Even with this planning methodology, Avista currently projects having adequate resources between owned and contractually

controlled generation to meet physical energy and capacity needs until 2021.¹ See Figure 11.2 for Avista’s physical resource positions for annual energy, summer capacity, and winter capacity. This figure accounts for the effects of new energy efficiency programs on the load forecast. Absent energy efficiency, Avista would be deficient earlier.

Figure 11.2: Physical Resource Positions (Includes Energy Efficiency)



Renewable Portfolio Standards

Washington voters approved the EIA in the November 2006 general election. The EIA requires utilities with over 25,000 customers to meet three percent of retail load from qualified renewable resources by 2012, nine percent by 2016, and fifteen percent by 2020. The initiative also requires utilities to acquire all cost-effective energy efficiency and energy efficiency.

Avista expects to meet or exceed its EIA requirements through the 20-year plan with a combination of qualifying hydroelectric upgrades, the Palouse Wind project, the Kettle Falls Generating Station and selective REC purchases.² Table 11.1 provides a list of the qualifying generation projects and the associated expected output. Figure 11.3 shows the forecast REC positions. The flexibility included in the EIA to use RECs from the current year, from the previous year, or from the following year for compliance, mitigates year-to-year variability in the output of qualifying renewable resources.

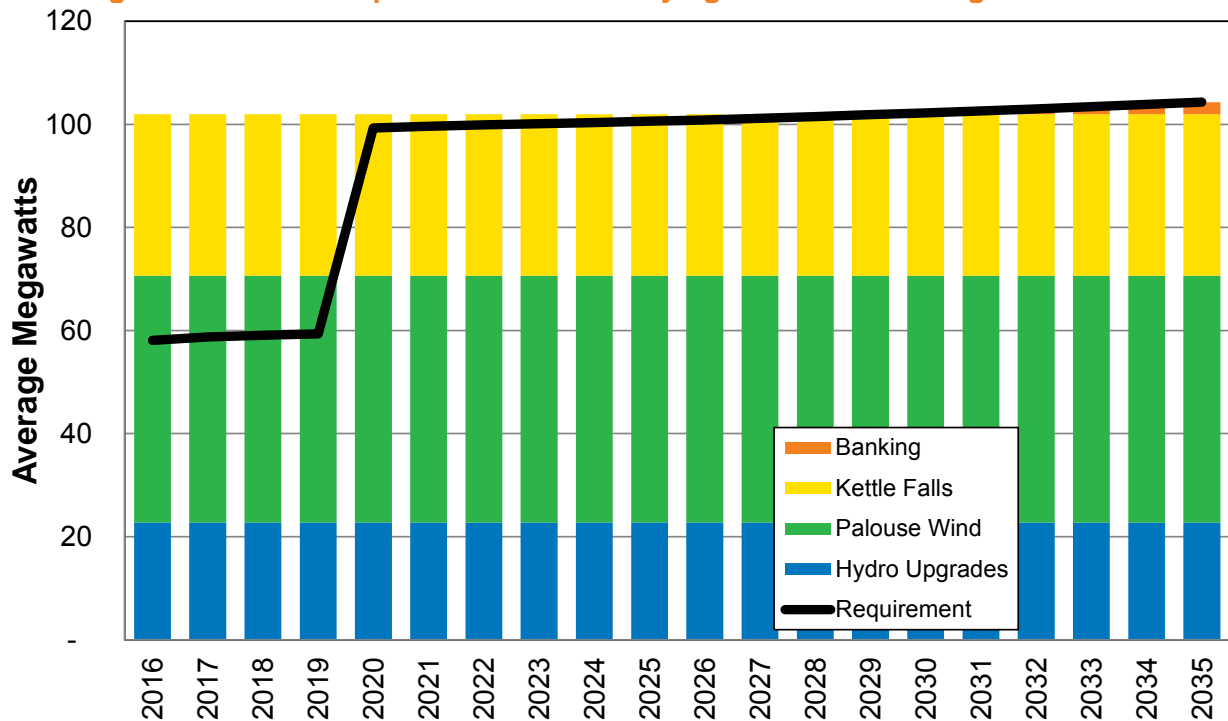
¹ Chapter 6 – Long-Term Position contains more details about Avista’s peak planning methodology.

² The RECs from Wanapum are not in WREGIS and are currently ineligible under the EIA requirements for investor-owned utilities, but Avista is working with Grant County PUD to qualify the energy.

Table 11.1: Qualifying Washington EIA Resources

Resource	Resource Type	On-line Year	Nameplate Capacity	Expected MWh	Expected RECs
Kettle Falls GS ³	Biomass	1983	47.0	374,824	281,118
Long Lake 3	Hydro	1999	4.5	14,197	14,197
Little Falls 4	Hydro	2001	4.5	4,862	4,862
Cabinet Gorge 3	Hydro	2001	17.0	45,808	45,808
Cabinet Gorge 2	Hydro	2004	17.0	29,008	29,008
Cabinet Gorge 4	Hydro	2007	9.0	20,517	20,517
Wanapum	Hydro	2008	0.0	22,206	22,206
Noxon Rapids 1	Hydro	2009	7.0	21,435	21,435
Noxon Rapids 2	Hydro	2010	7.0	7,709	7,709
Noxon Rapids 3	Hydro	2011	7.0	14,529	14,529
Noxon Rapids 4	Hydro	2012	7.0	12,024	12,024
Palouse Wind	Wind	2012	105.0	349,726	419,671
Nine Mile 1 & 2	Hydro	2016	4.0	11,826	11,826
Total			236.0	928,671	904,910

Figure 11.3: REC Requirements vs. Qualifying RECs for Washington State EIA



Resource Selection Process

Avista uses several decision support systems to develop its resource strategy, including AURORA^{XMP} and Avista’s PRiSM model. The AURORA^{XMP} model, discussed in detail in

³ The Kettle Falls Generation Station becomes EIA qualified beginning in 2016. Clarification about old growth fuel is required to determine the amount of energy to qualify for the law.

the Market Analysis chapter, calculates the operating margin (value) of every resource option considered in each of the 500 Monte Carlo simulations of the Expected Case, as well as Avista's existing generation portfolio. The PRiSM model helps make resource decisions. Its objective is to meet resource deficits while accounting for overall cost, risk, capacity, energy, renewable energy requirements, and other constraints. PRiSM evaluates resource values by combining operating margins with capital and fixed operating costs. The model creates an efficient frontier of resources, or the least cost portfolios, given a certain level of risk and constraints. Avista's management selects a resource strategy using this efficient frontier to meet all capacity, energy, RPS, and other requirements.

PRiSM

Avista staff developed the first version of PRiSM in 2002 to support resource decision making in the 2003 IRP. Various enhancements over the years have improved the model. PRiSM uses a mixed integer programming routine to support complex decision making with multiple objectives. These tools provide optimal values for variables, given system constraints.

Overview of the PRiSM model

The PRiSM model requires a number of inputs:

1. Expected future deficiencies
 - Greater of summer 1- or 18-hour capacity
 - Greater of winter 1- or 18-hour capacity
 - Annual energy
 - EIA requirements
2. Costs to serve future retail loads
3. Existing resource and conservation contributions
 - Operating margins
 - Fixed operating costs
4. Resource and conservation options
 - Fixed operating costs
 - Return on capital
 - Interest expense
 - Taxes
 - Generation levels
 - Emission levels
5. Constraints
 - The level of market reliance (surplus/deficit limits on energy, capacity and RPS)
 - Resources quantities available to meet future deficits

PRiSM uses these inputs to develop an optimal resource mix over time at varying levels of risk. It weights the first twenty-five years more heavily than the later years to highlight the importance of nearer-term decisions. Equation 11.1 shows a simplified view of the PRiSM linear programming objective function.

Equation 11.1: PRiSM Objective Function

Minimize: $(X_1 * NPV_{2016-2040}) + (X_2 * NPV_{2016-2065})$

Where: X_1 = Weight of net costs over the first 25 years (95 percent)
 X_2 = Weight of net costs over the next 50 years (5 percent)
 NPV is the net present value of total system cost.⁴

An efficient frontier captures the optimal resource mix graphically given varying levels of cost and risk. Figure 11.4 illustrates the efficient frontier concept. As you attempt to lower risk, costs increase. The optimal point on the efficient frontier depends on the level of risk Avista and its customers are willing to accept. No best point on the curve exists, but Avista prefers points where small incremental cost additions offset large reductions in risk. Portfolios to the left of the curve are more desirable, but do not meet the planning requirements or resource constraints. Examples of these constraints include environmental costs, regulation, and the availability of commercially viable technologies limit utility-scale resource options. Portfolios to the right of the curve are less efficient as they have higher costs than a portfolio with the same level of risk. The model does not meet deficits with market purchases, or allow the construction of resources in any incremental size.⁵ Instead, it uses the market to balance short-term gaps and adds resources in sizes equal to the project sizes Avista could actually obtain.

Constraints

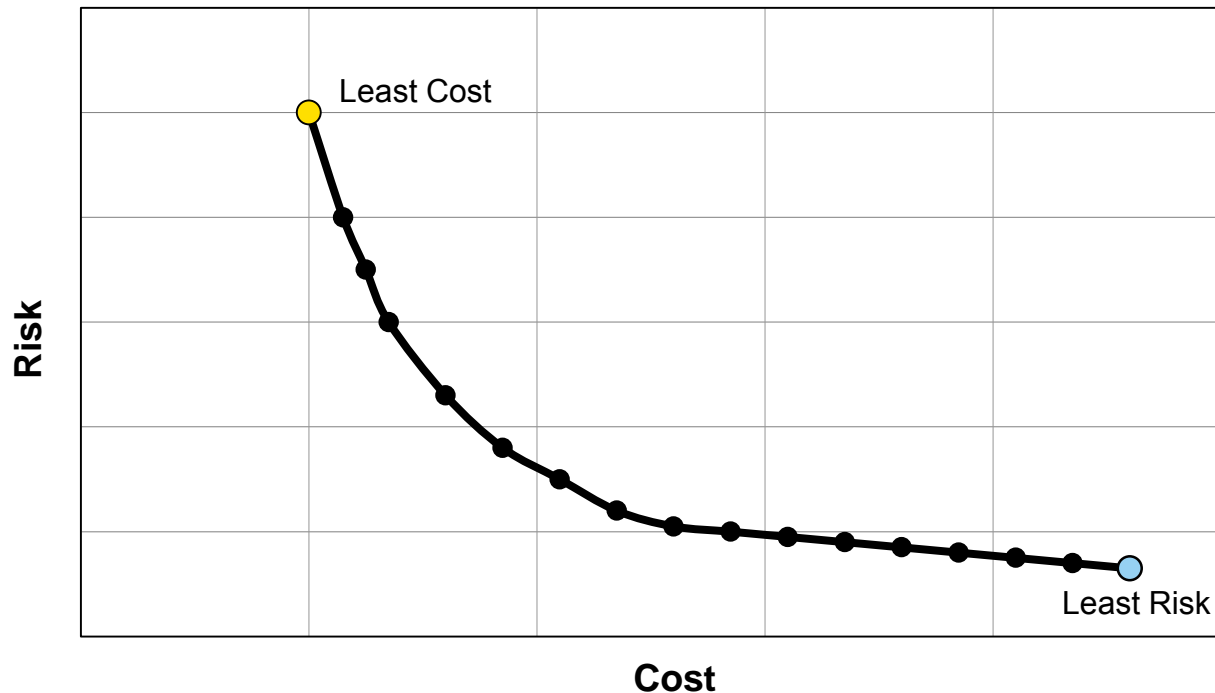
As discussed earlier in this chapter, reflecting real-world constraints in the model is necessary to create a realistic representation of the future. Some constraints are physical and others are societal. The major resource constraints are capacity and energy needs, Washington's EIA, and greenhouse gas emissions performance standard.

The PRiSM model selects from conservation, combined- and simple-cycle natural gas-fired combustion turbines, natural gas-fired reciprocating engines, wind, solar, storage batteries, and upgrades to existing thermal and hydroelectric resources.

⁴ Total system cost is the existing resource marginal costs, all future resource fixed and variable costs, and all future energy efficiency costs and the net short-term market sales/purchases.

⁵ Market reliance, as identified in Section 2, is determined prior to PRiSM's optimization.

Figure 11.4: Conceptual Efficient Frontier Curve



Washington’s EIA or RPS fundamentally changed how Avista meets future loads. Before the addition of an RPS obligation, the efficient frontier contained a least-cost strategy on one axis, the least-risk strategy on the other axis, and all of the points in between. Management used the efficient frontier to help determine where they wanted to be on the cost-risk continuum. The least-cost strategy consists of natural gas-fired peaking resources. Portfolios with less risk replace some of the natural gas-fired peaking resources with wind generation, other renewables, combined cycle natural gas-fired plants and/or coal-fired resources. Past IRPs identified resource strategies including all of these risk-reducing resources. Added environmental and legislative constraints reduce the number of resource choices available to reduce future costs and/or risks.

Preferred Resource Strategy

The 2015 PRS consists of existing thermal resource upgrades, energy efficiency, natural gas-fired peakers, and a natural gas-fired CCCT. A list of planned acquisitions is in Table 11.2 and a graphic is in Figure 11.5. The first resource acquisition is 96 MW of natural gas-fired peaking technology by the end of 2020. This resource acquisition fills the capacity deficit created by the expiration of the WNP-3 contract with the BPA (82 MW), the expiration of the Douglas County PUD contract for a portion of the Wells hydroelectric facility (28 MW) and load growth. In this IRP evaluation, frame technology CTs are preferred based on modeling results. Given the relatively small cost differences between the evaluated natural gas-fired peaker technologies, the future technology decision will be determined in an RFP. Technological changes in efficiency and flexibility may mean the Avista will need to revisit this resource choice closer to the actual need. Since the long-term need is more than five years out, Avista will not

release an RFP in the next two years, but will begin a process to evaluate technologies and potential locations prior to a RFP release, likely following the 2017 IRP.

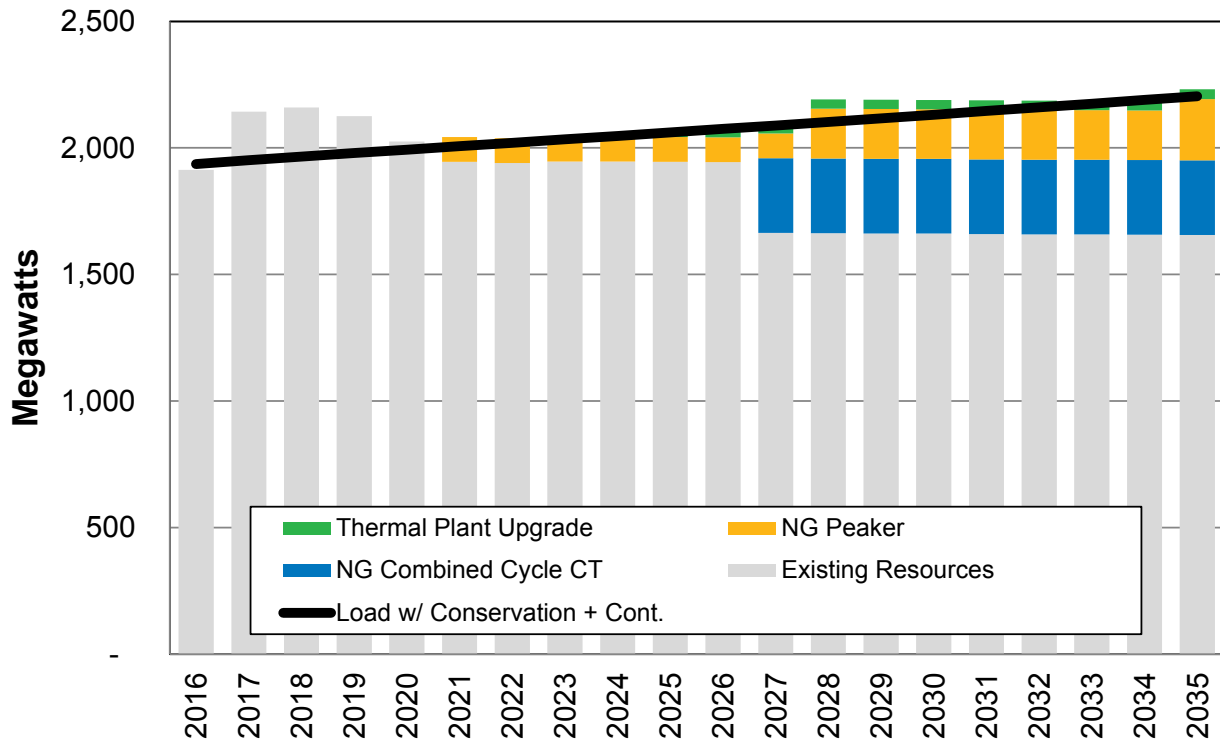
Table 11.2: 2015 Preferred Resource Strategy

Resource	By the End of Year	ISO Conditions (MW)	Winter Peak (MW)	Energy (aMW)
Natural Gas Peaker	2020	96	102	89
Thermal Upgrades	2021-2025	38	38	35
Combined Cycle CT	2026	286	306	265
Natural Gas Peaker	2027	96	102	89
Thermal Upgrades	2033	3	3	3
Natural Gas Peaker	2034	47	47	43
Total		565	597	524
Efficiency Improvements	Acquisition Range		Winter Peak Reduction (MW)	Energy (aMW)
Energy Efficiency	2016-2035		193	132
Distribution Efficiencies			<1	<1
Total			193	132

The next resource acquisitions in the PRS are upgrades to Avista’s thermal fleet. These upgrades may be cost effective earlier depending upon negotiations with vendors.

The proposed 286 MW CCCT replaces the Lancaster tolling agreement expiring in October 2026. Avista could renegotiate the current agreement or find other mutual terms to retain the plant for customers. Where Avista does not retain Lancaster, it would need to build or procure a similar-sized natural gas-fired unit. The new plant size could meet future load growth needs and delay or eliminate the need for later additional resource acquisitions in this plan. Due to the uncertainty surrounding replacing Lancaster, this IRP assumes the replacement is a new facility of similar size. As 2026 approaches, more information and replacement costs will be discussed in future IRPs.

Figure 11.5: New Resources Meets Winter Peak Loads



The 2015 PRS is moderately different from the 2013 resource strategy shown in Table 11.3. Avista’s capacity needs have changed since the prior plan. The first need for new resources has moved out one year, as Avista won an auction to purchase a share of the output from Chelan County PUD’s hydroelectric projects. Lower loads compared to the prior plan and new upgrade options eliminate the need for one of the peakers forecasted in the prior plan.

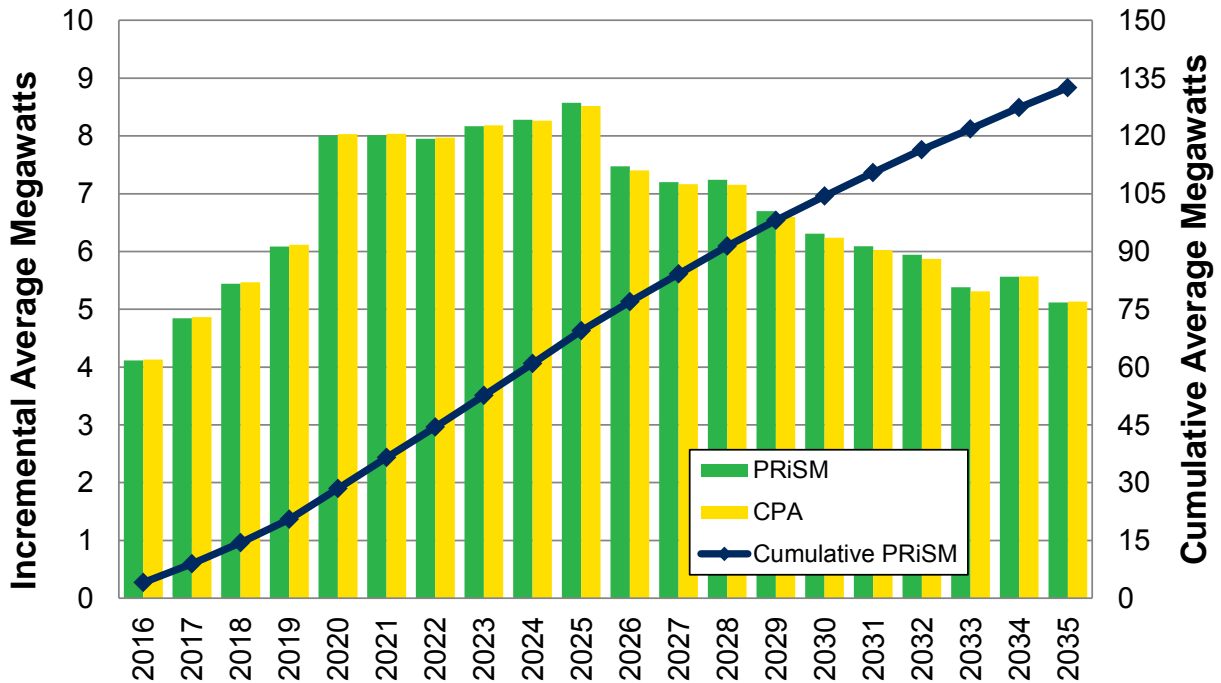
Table 11.3: 2013 Preferred Resource Strategy

Resource	By the End of Year	ISO Conditions (MW)	Winter Peak (MW)	Energy (aMW)
Simple Cycle CT	2019	83	86	76
Simple Cycle CT	2023	83	86	76
Combined Cycle CT	2026	270	281	248
Simple Cycle CT	2023	83	86	76
Rathdrum CT Upgrade	2028	6	2	5
Simple Cycle CT	2032	50	52	46
Total		575	594	527
Efficiency Improvements	Acquisition Range		Winter Peak Reduction	Energy (aMW)
Energy Efficiency	2014-2033		221	164
Demand Response	2022-2027		19	0
Distribution Efficiencies	2014-2017		<1	<1
Total			240	164

Energy Efficiency

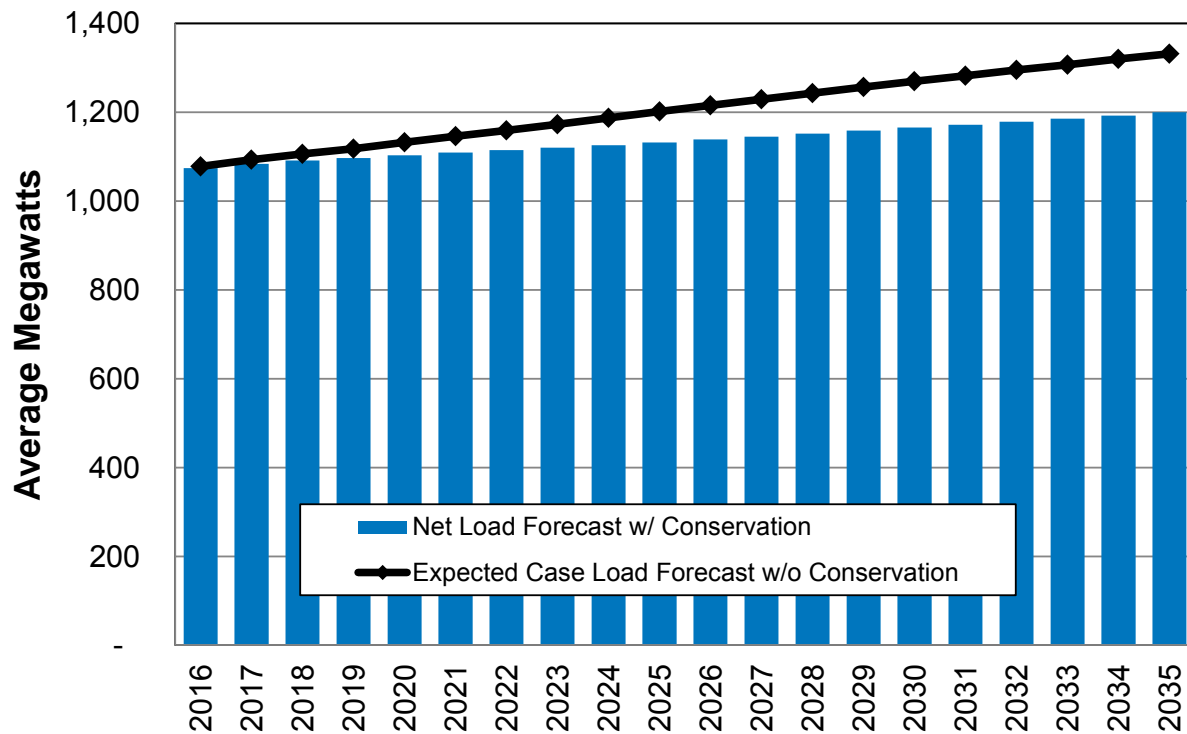
Energy efficiency is an integral part of the IRP analytical process. It also is a critical component of the EIA requirement for utilities to obtain all cost effective energy efficiency at below 110 percent of generation alternatives. For this IRP, Avista began modeling energy efficiency and supply side options in a single optimization. This enhancement allows the selection of different conservation levels along the efficient frontier, rather than assuming conservation is a fixed amount across the frontier. Figure 11.6 shows the annual conservation additions from the optimization compared to the third party CPA. The PRiSM model selected nearly identical conservation quantities each year and in total (132.5 aMW with PRiSM versus 132.1 with the CPA). Figure 11.7 shows the difference between the load forecast with and without conservation. The 132 aMW of energy savings (including losses) represents 52 percent of potential load growth. Please refer to Chapter 5 for a detailed discussion about energy efficiency resources.

Figure 11.6: Energy Efficiency Annual Expected Acquisition Comparison⁶



⁶ Figure 11.6 includes 6.1 percent energy losses.

Figure 11.7: Load Forecast with and without Energy Efficiency



Grid Modernization

Distribution feeder upgrades entered the PRS for the first time in the 2009 IRP. The grid modernization process began with the Ninth and Central Streets feeder in Spokane. The decision to rebuild a feeder considers energy, operation and maintenance savings, the age of installed equipment, reliability indexes, and the number of customers on the feeder. System reliability, instead of energy savings, generally drives feeder rebuild decisions. Therefore, feeder upgrades are no longer included as resource option in PRISM. A broader discussion of Avista's feeder rebuild program is in Chapter 8.

Natural Gas-Fired Peakers

Avista plans to locate potential sites for new natural gas-fired generation capacity within its service territory ahead of an anticipated need. Avista's service territory has areas with different combinations of benefits and costs for gas-fired generation. Locations in Washington have higher generation costs because of natural gas fuel taxes and carbon mitigation fees. However, Washington locations may benefit from their proximity to natural gas pipelines and Avista's transmission system, lower project elevations with higher on-peak capacity contributions per investment dollar, and potential for water rights to cool the facility more efficiently. In Idaho, lower taxes and fees decrease the cost of a potential facility, but fewer locations exist to site a facility near natural gas pipelines, fewer low cost transmission interconnection points are available, and fewer sites have available rights for cooling water. In the 2013 IRP, an Action Item was to identify a location for a future natural gas resource. Avista has studied potential locations and concluded a site in Northern Idaho best fits customer needs. Avista has yet to determine if a brownfield or a greenfield site best fits future energy needs. Given

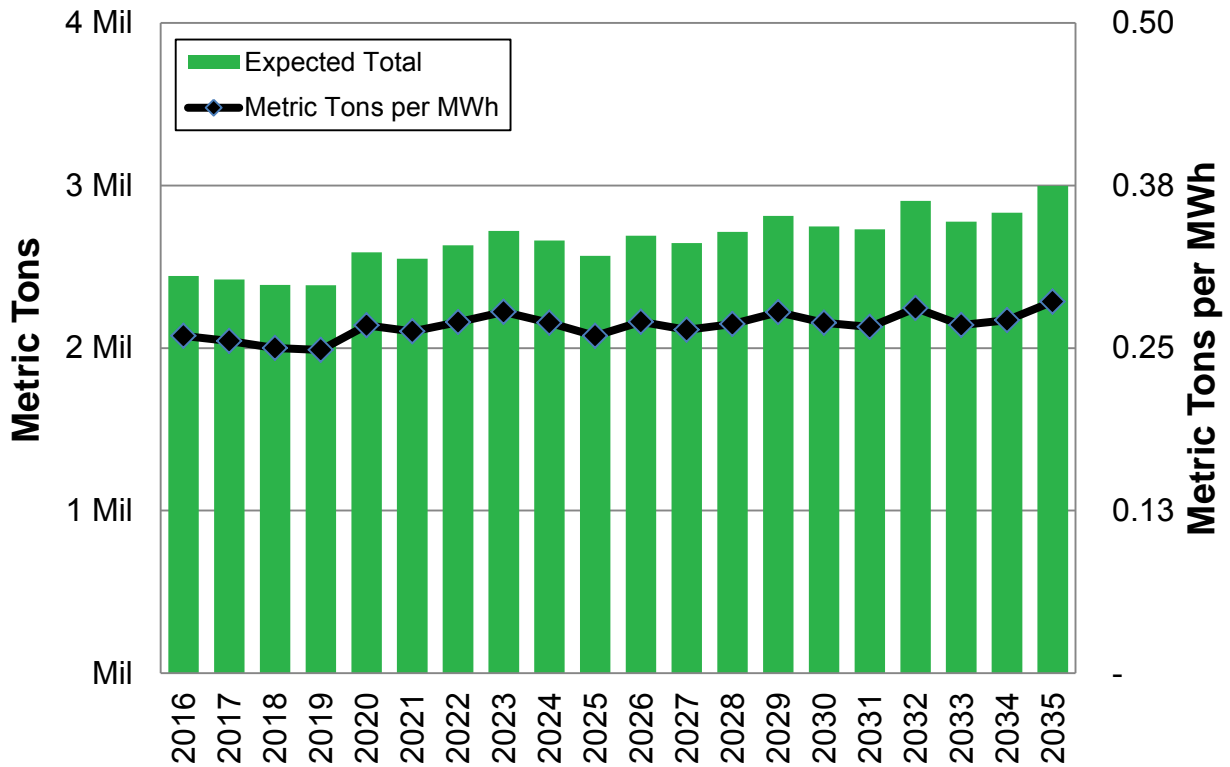
Avista's extended surplus position until the end of 2020, the company will defer the decision while continuing to pursue and evaluate sites.

Avista is not specifying a preferred peaking technology until an RFP is completed. Given current assumptions, the resource strategy would include a Frame CT machine. Tradeoffs will occur between capital costs, size, operating efficiency and flexibility. Frame CT machines are a lower capital cost option, but have higher operating costs and less flexibility; while hybrid technology has higher capital costs, lower operating costs, and more operational flexibility. Advances in natural gas-fired reciprocating engines are also of interest. These resources utilize a group of smaller units to reduce the risk of a larger single plant breaking down, have low heat rates, and are highly flexible; but they can be more expensive than other technologies. Given the expected number of operating hours, the lowest cost option is the less efficient and less flexible Frame CT. Increased flexibility requirements and greenhouse gas emissions costs could make a hybrid plant or reciprocating engines preferable. Avista has enough resource flexibility to meet customer needs to drive the strategy towards a lower cost peaker option, but energy imbalance markets may provide enough revenues for a flexible peaker to offset the higher costs.

Greenhouse Gas Emissions

Chapter 10 – Market Analysis, discusses how greenhouse gas emissions decrease due to coal plant retirements across the Western Interconnection. Avista's projected resource mix does not include any retirements due to current or proposed environmental regulations. The only significant carbon emitting lost resource is the expiration of the Lancaster PPA in 2026. Figure 11.8 presents Avista's expected greenhouse gas emissions (excluding Kettle Falls Generating Station) with the addition of 2015 PRS resources. Emissions should not change significantly prior to 2019 other than from year-to-year fluctuations resulting from maintenance outages, market fluctuations, and regional hydroelectric generation levels. Beginning in 2019, additional emissions will come from new peaking resources, but these resources will not affect overall emissions levels much due to low projected use. The estimates in Figure 11.8 do not include emissions from purchased power or a reduction in emissions for off-system sales. Avista expects its greenhouse gas emissions intensity from owned and controlled generation to remain around 0.27 metric tons per MWh with the current resource mix and the new generation identified in the PRS.

Figure 11.8: Avista Owned and Controlled Resource’s Greenhouse Gas Emissions



Capital Spending Requirements

This IRP assumes Avista will finance and own all new resources. This may or may not be the result of competitive RFP processes, but the overall result is unchanged by assumed ownership structure. Using this assumption, and the resources identified in the 2015 PRS, the first capital addition to rate base is in 2021 for the first natural gas-fired peaker. The development is likely to begin years earlier, but would likely enter rate base January 1, 2021. Avista may begin making major capital investments for the addition in 2018 or earlier. The capital cash flows in Table 11.4 include AFUDC, transmission investments for generation, tax incentives, and sales taxes. Over the 20-year IRP timeframe, \$682 million (nominal) in generation and related transmission expenditure is required to support the PRS. A separate tariff rider funds energy efficiency.

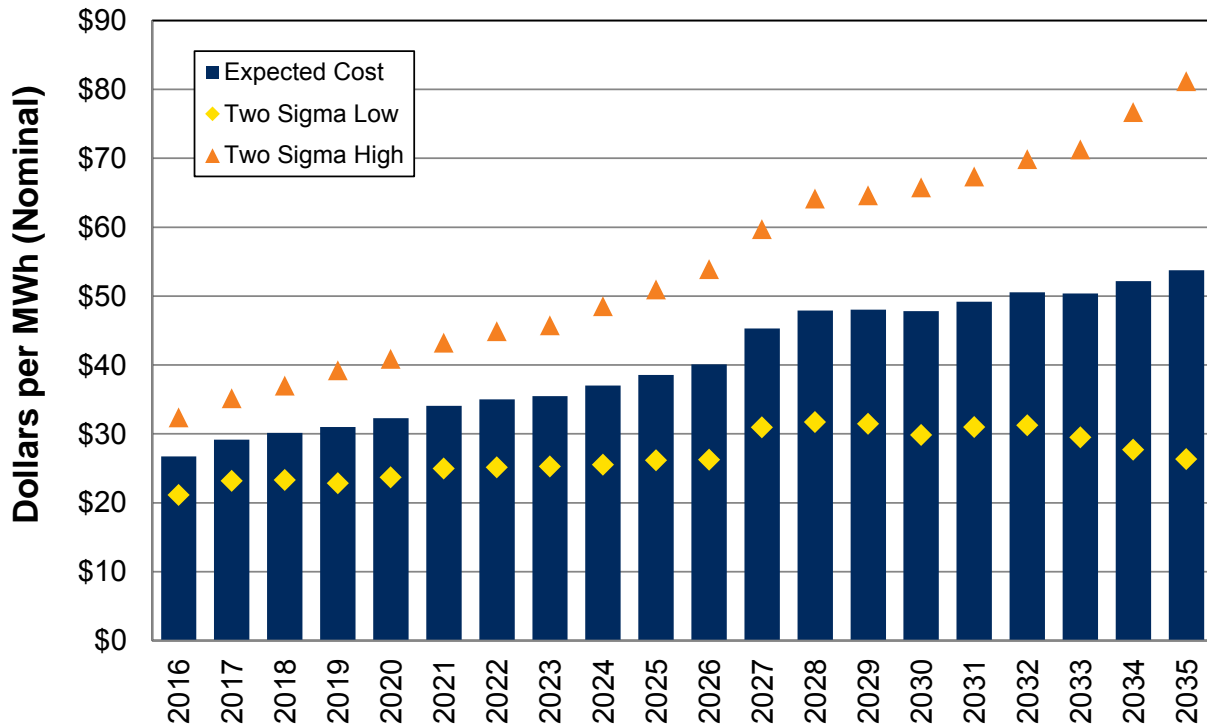
**Table 11.4: PRS Rate Base Additions from Capital Expenditures
(Millions of Dollars)**

Year	Investment	Year	Investment
2016	0.0	2026	8.2
2017	0.0	2027	398.9
2018	0.0	2028	98.7
2019	0.0	2029	0.0
2020	0.0	2030	0.0
2021	89.4	2031	0.0
2022	0.0	2032	0.0
2023	0.0	2033	0.0
2024	3.0	2034	4.2
2025	12.1	2035	68.1
2016-25 Total	104.5	2026-35 Totals	578.0

Annual Power Supply Expenses and Volatility

PRS variance analysis tracks fuel, variable O&M, emissions, and market transaction costs for the existing resource portfolio for each of the 500 Monte Carlo iterations of the Expected Case risk analysis. In addition to existing portfolio costs, new resource capital, fuel, O&M, emissions, and other costs provide a range of expected costs to serve future loads. Figure 11.9 shows expected PRS costs through 2035 as the blue bar (nominal dollars). In 2016, costs are \$26 per MWh. The chart shows a two-sigma cost range. Yellow diamonds (\$21 per MWh in 2016) represents the lower range and the upper range with orange dots (\$32 per MWh in 2016). The main driver increasing power supply costs and volatility in future years is natural gas prices and weather (hydroelectric and load variability). Avista increases the volatility assumption of future natural gas prices as the commodity price has unknown future risks and a history of volatility.

Figure 11.9: Power Supply Expense Range



Near Term Load and Resource Balance

Under Washington regulation (WAC 480-107-15), utilities expecting supply deficits within three years of an IRP filing must file a RFP with the WUTC within 135 days after filing the IRP. After WUTC approval, bids to meet the anticipated capacity shortfall must be issued within 30 days. In the 2013 IRP, an Action Item committed Avista to develop a short-term capacity load and resource balance tool to monitor temporarily short positions. Shortly after the filing of the 2013 plan, this tool (Capacity Report) was completed and consulted prior to the heating and cooling seasons. Continuing this monitoring, Table 11.5 shows a modest deficit in 2016 from the Capacity Report, after 2016 Avista will be long on capacity as the Portland General Electric 150 MW capacity sale expires. Market purchases will fill the small temporary deficit in 2016. In Table 11.6, the summer position is long in each of the next four years. As described in Chapter 6, the region is long on summer capacity. Given this circumstance, Avista is not planning to hold capacity for a planning margin and will utilize the surplus in the wholesale market to meet load in extreme weather conditions or extended plant outages.

Table 11.5: Avista Medium-Term Winter Peak Hour Capacity Tabulation

	2016	2017	2018	2019
Load Obligations	1,699	1,712	1,725	1,737
Other Firm Requirements	224	74	39	39
Reserves Planning	373	371	373	376
Total Obligations	2,295	2,157	2,137	2,152
Firm Power Purchases	181	181	164	162
Owned & Contracted Hydro	954	1,029	1,029	996
Thermal & Storage Resources	1,137	1,138	1,138	1,138
Wind (at Peak)	0	0	0	0
Total Resources	2,272	2,348	2,331	2,297
Net Position	-23	191	194	145
Short Term Market Purchase	25	0	0	0
Net Position	2	191	194	145

Table 11.6: Avista Medium-Term Summer 18-Hour Sustained Peak Capacity Tabulation

	2016	2017	2018	2019
Load Obligations	1,515	1,529	1,542	1,554
Other Firm Requirements	174	74	39	39
Reserves Planning ⁷	165	163	164	166
Total Obligations	1,854	1,766	1,745	1,759
Firm Power Purchases	68	68	51	49
Owned & Contracted Hydro	822	818	805	780
Thermal Resources	980	984	984	984
Wind (at Peak)	0	0	0	0
Total Resources	1,871	1,870	1,840	1,814
Net Position	17	104	95	55
Short Term Market Purchase	0	0	0	0
Net Position	17	104	95	55

⁷ Due to the sustained peak planning methodology, hydroelectric capacity exceeding sustained maximum capability meets operating and control area reserves.

Efficient Frontier Analysis

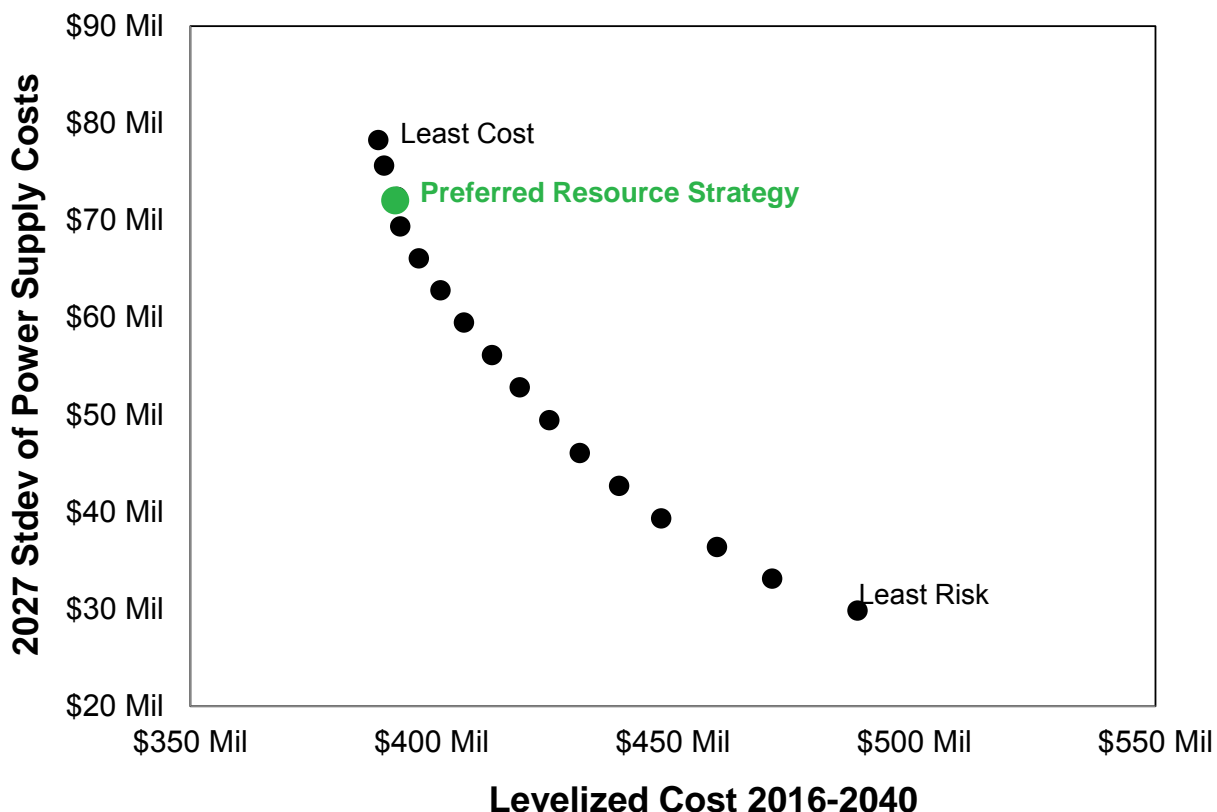
Efficient frontier analysis is the backbone of the PRS. The PRiSM model develops the efficient frontier by simulating the costs and risks of resource portfolios using a mixed-integer linear program. PRiSM finds an optimized least cost portfolio for a range of risk levels. The PRS analyses examined the following portfolios.

- **Least Cost:** Meets all capacity, energy and RPS requirements with the least-cost resource options. This portfolio ignores power supply expense volatility in favor of lowest-cost resources.
- **Least Risk:** Meets all capacity, energy and RPS requirements with the least-risk mix of resources. This portfolio ignores the overall cost of the selected portfolio in favor of minimizing portfolio volatility (risk).
- **Efficient Frontier:** Meets all capacity, energy and RPS requirements met with sets of intermediate portfolios between the least risk and least cost options. Given the resource assumptions, no resource portfolio can be at a better cost and risk combination than these portfolios.
- **Preferred Resource Strategy:** Meets all capacity, energy and RPS requirements while recognizing both the overall cost and risk inherent in the portfolio. Avista's management chose this portfolio as the most reasonable given current information.

Figure 11.10 presents the Efficient Frontier. The x-axis is the levelized nominal cost per year for the power supply portfolio, including capital recovery, operating costs, and fuel expense; the y-axis displays the standard deviation of power supply costs in 2027. The year 2027 is far enough into the future to account for the risk tradeoffs of several resource decisions. Using an earlier year to measure risk would have too few new resource decisions available to distinguish between portfolios. It is necessary to move far enough into the future so load growth provides PRiSM the opportunity to make new resource decisions. By choosing a year later in the planning horizon, relevant resource decisions studies can occur.

Avista is not choosing to pursue the least cost strategy, as it relies exclusively on natural gas-fired peaking facilities. This strategy would include more market risk than exists in the present portfolio because the portfolio would trade the Lancaster CCCT for a SCCT. The PRS diversifies Avista's resource mix with peaking and combined-cycle natural gas-fired plants. Selecting the appropriate point on the efficient frontier is not solvable through a mathematical formula. In the WUTC's 2013 IRP acknowledgement, the commission asked Avista to evaluate the value of risk mitigation among competing resource strategies and provide justification for its selection of the PRS over other portfolios along the efficient frontier.

Figure 11.10: Expected Case Efficient Frontier

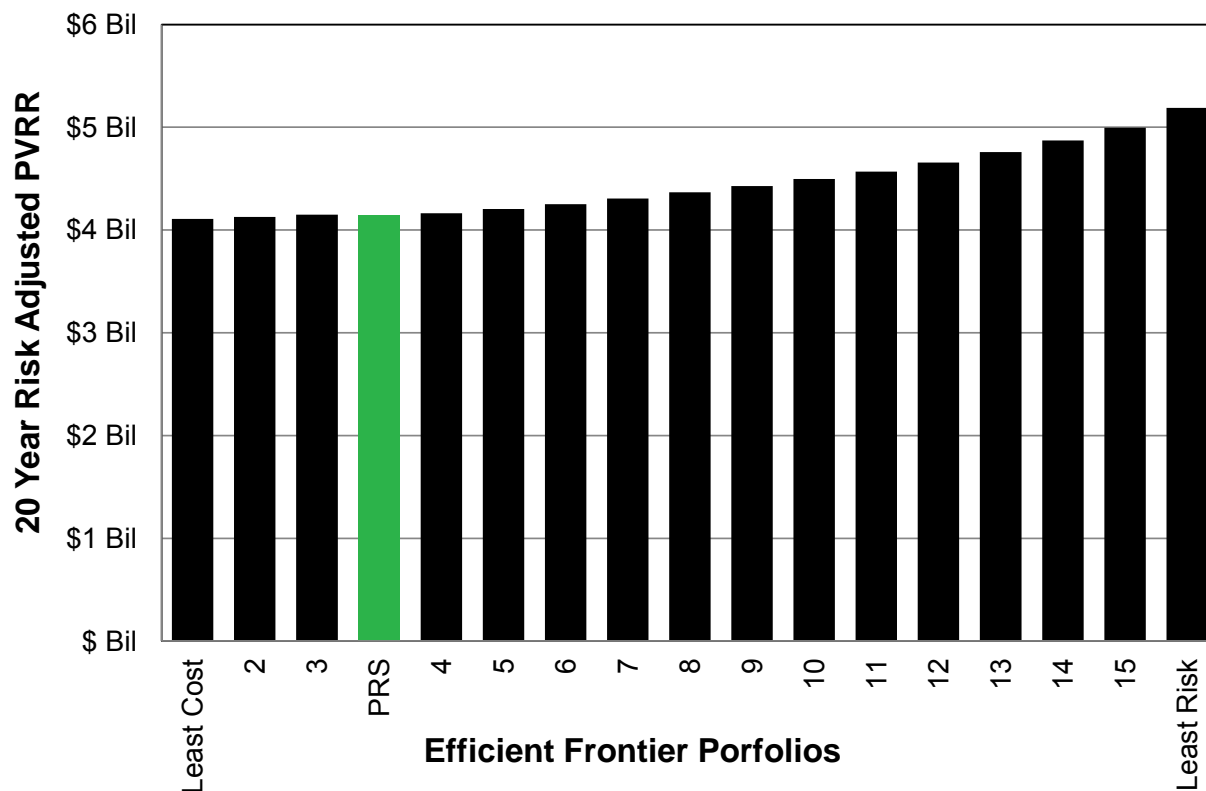


In response to the WUTC request, Avista investigated several methods of measuring the benefits and costs of each portfolio along the efficient frontier. Economic theory indicates all points on the curve are the best portfolio for a given level of risk. Academic research suggests users of efficient frontiers develop indifference curves to overlay against the efficient frontier to help select the appropriate portfolio strategy. After researching this concept, it is no different from finding what level of risk reduction a manager is accepting for each level of risk. Avista investigated two other analytical methodologies to evaluate each portfolio along the efficient frontier: risk adjusted PVRR, and point-to-point derivatives.

The first step calculates risk adjusted PVRR for each portfolio. This calculation is the net present value of the future revenue requirements, plus the present value of taking each of the future year's tail risk, calculated by five percent of the 95th percentile's increase in costs. This methodology assumes the lowest NPV should yield the best strategy. Figure 11.11 shows the results of this study of the efficient frontier. The lowest risk scenario is the Least Cost portfolio. The PRS is nearly one percent higher in cost than the Least Cost strategy. The PRiSM model is so good at selecting portfolios by minimizing costs that the curve below is smooth. In the case where an IRP chooses between handpicked resource portfolios, this tool can be useful. This Risk-Adjusted PVRR methodology suggests the Least Cost strategy would be the best choice. Before making this decision, Avista considered additional analyses, given that this strategy built 527 MW of 11,000

heat rate peakers. The strategy increases exposure to a potentially volatile power and natural gas market as compared to today's portfolio.

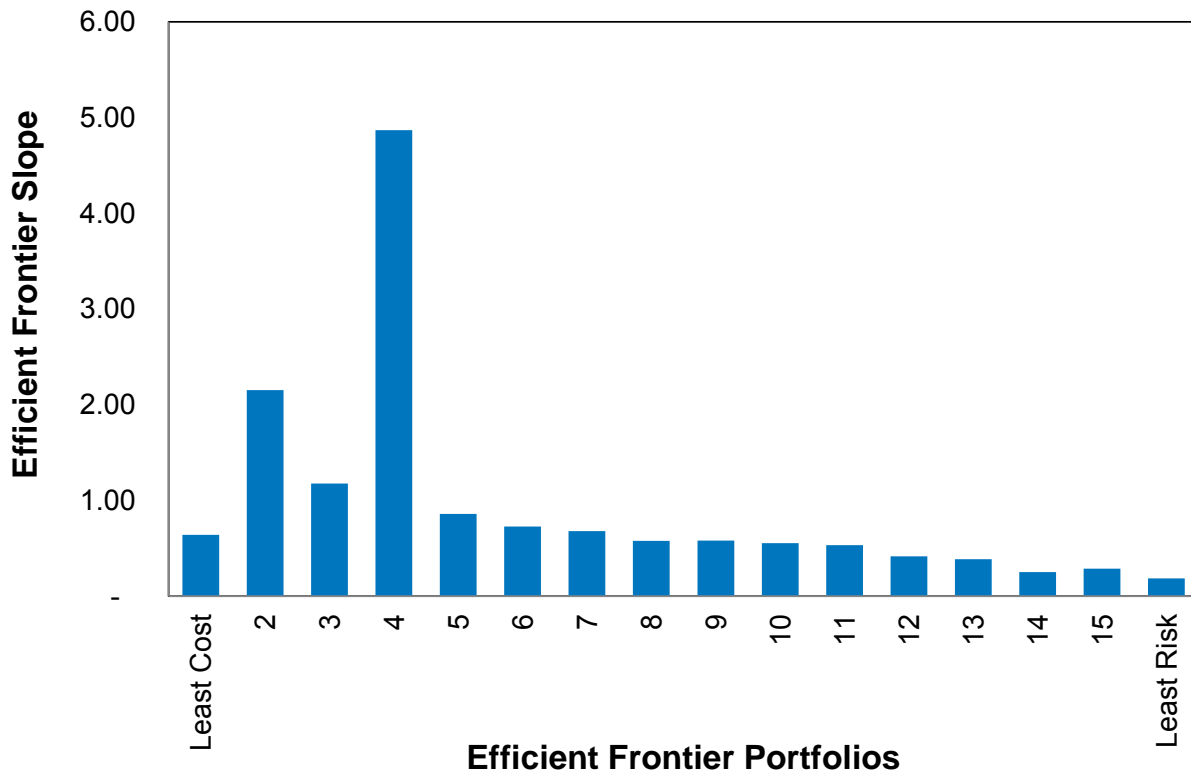
Figure 11.11: Risk Adjusted PVRR of Efficient Frontier Portfolios



The second method calculates point-to-point derivatives by analyzing the slope of the change in cost relative to the change in costs. In this case, greater slope indicates increasing tradeoffs for added costs in exchange for risk reductions. Figure 11.12 illustrates the results of this study. This method shows the slope derivatives for each portfolio along the frontier. A higher slope indicates a better tradeoff between cost and risk. Avista chose a portfolio between portfolios three and four. Avista chose the midpoint point because it selects a smaller CCCT than using portfolio 4. At this time, Avista does not want to plan to replace Lancaster with a larger plant.

This methodology is useful in determining tradeoffs for added cost and risk, and suggests the best point is near the PRS. Each study provides useful information about choosing a future resource portfolio. Selecting the best portfolio from a series of portfolios depends on the amount of acceptable risk. Avista's PRS is a similar portfolio to current resources, so the PRS does not add more risk to customers.

Figure 11.12: Risk Adjusted PVRR of Efficient Frontier Portfolios



Other Efficient Frontier Portfolios

In addition to the PRS, the efficient frontier contains 16 additional resource portfolios. This section describes the other 16 portfolios. The lower cost and higher risk portfolios contain primarily natural gas peakers, as portfolio risk decreases, CCCT capacity increases. The amount of conservation varies in these portfolios as it lowers risk, as it fills deficiency gaps depending on the resource selection. For example, the model must select a resource size actually available in the marketplace. Given this “lumpiness”, it may be more efficient to meet some larger portion needs with conservation in order to meet this load requirement. This discussion continues in Chapter 12 with a scenario allowing the model to select any size resource.

Toward the middle of the efficient frontier, wind and solar are favored by PRISM to reduce risk, as additional conservation resources become more expensive. The lower half of the efficient frontier includes portfolios going long on capacity with added CCCTs and renewable resources, meanwhile maxing out the amount of conservation included in the model. The least risk portfolio has no financial objective and selects as much resource as possible given the model’s constraints to lower risk.

Table 11.7: Alternative Resource Strategies along the Efficient Frontier (MW)

Portfolio	NG Peaker	NG CCCT	Wind	Solar	Thermal Upgrade	Energy Efficiency
Least Cost	527	-	-	-	38	128
2	524	-	-	-	41	135
3	239	286	-	-	38	128
PRS	239	286	-	-	41	132
4	143	341	-	-	38	138
5	189	341	50	10	41	139
6	140	341	100	20	41	143
7	189	341	200	-	38	141
8	140	341	250	20	41	142
9	186	341	300	70	38	141
10	186	341	400	30	38	141
11	140	341	450	80	38	144
12	140	341	500	150	41	142
13	186	341	500	290	38	143
14	93	627	500	270	38	140
15	93	627	500	480	38	141
Least Risk	186	683	500	600	23	144

Determining the Avoided Costs of Energy Efficiency

The efficient frontier methodology determines the avoided cost of the new resource additions included in the PRS. There are two avoided cost calculations for this IRP: one for energy efficiency and one for new generation resources. The energy efficiency avoided cost is higher because it includes benefits beyond generation resource value.

Avoided Cost of Energy Efficiency

Since energy efficiency is within PRiSM, the prior IRP method of calculating avoided costs is no longer required; estimating these values is helpful in selecting conservation measures in future more detailed analysis between IRPs. The process used to estimate avoided cost calculates the marginal cost of energy and capacity of the resources selected in the PRS. The energy value uses an hourly energy price to ensure matching between savings and value. If the savings were the same each hour of the year, it would receive the flat energy price, but if it were only saving energy in on-peak hours, it would receive a higher price. In addition to energy prices, the 10 percent Power Act adder and the value of loss savings are included. Reducing customer loads saves future distribution and transmission capital and O&M costs, and is included in the conservation-avoided cost as a credit for this savings. The final component of avoided cost accounts for the savings from avoided new capacity. This capacity value is the difference between the cost of a resource and the value the resource earns from the marketplace.

Equation 11.2 describes the avoided costs to evaluate conservation measures. This equation is slightly different from the 2013 IRP. In prior IRP's, the capacity value received the 10 percent Power Act benefit, now with energy efficiency included in the

PRISM model, the ten percent adder cannot be included in the linear program as it would create a non-linear solution. This change is consistent with the NPCC's methodology.

Equation 11.2: Conservation Avoided Costs

$$\{(E + (E * L) + DC) * (1 + P)\} + PCR$$

Where:

E = Market energy price. The price calculated by AURORA^{XMP} is \$38.48 per MWh assuming a flat load shape.

PCR = New resource capacity savings for the PRS selection point is estimated to be \$102 per kW-year (winter savings only).

P = Power Act preference premium. This is the additional 10 percent premium given as a preference towards energy efficiency measures.

L = Transmission and distribution losses. This component is 6.1 percent based on Avista's estimated system average losses.

DC = Distribution capacity savings. This value is approximately \$12.30 per kW-Year

Determining the Avoided Cost of New Generation Options

Avoided costs change as market prices, loads, and resources change. The estimates in Table 11.8 change after Avista's resource mix changes. Table 11.8 shows avoided costs derived from the 2015 PRS. The prices represent the value of energy from a project making equal deliveries over the year in all hours. In this case, a new resource (such as a PURPA qualifying project) would not qualify for capacity payments until 2021, because Avista does not need capacity resources until then. The capacity payments included are tilted and levelized, meaning the actual capacity costs are linear and increasing each year rather than the PRS's actual declining cost curve for capacity. This is similar to typical pricing in a PPA. This change in costs occurs when Avista develops assets and the costs decline over time and with multiple plant additions, the actual costs are lumpy. This method keeps the same present value of costs and first year cost, but smoothes out future payments.

Table 11.8: Updated Annual Avoided Costs (\$/MWh)

Year	Flat Energy \$/MWh	On-Peak Energy \$/MWh	Off-Peak Energy \$/MWh	Capacity \$/kW-Yr
2016	25.87	29.05	21.62	0.00
2017	27.27	30.47	23.03	0.00
2018	29.59	32.90	25.18	0.00
2019	31.40	34.82	26.83	0.00
2020	33.25	36.48	28.94	0.00
2021	34.54	37.79	30.21	145.00
2022	36.05	39.30	31.70	148.32
2023	36.43	39.64	32.17	151.72
2024	38.60	41.85	34.27	155.19
2025	39.42	42.59	35.18	158.75
2026	43.12	46.36	38.80	162.38
2027	44.72	48.08	40.23	166.10
2028	46.48	49.79	42.09	169.90
2029	48.01	51.39	43.51	173.80
2030	48.79	52.14	44.32	177.78
2031	51.23	54.76	46.52	181.85
2032	53.90	57.58	48.98	186.01
2033	54.98	58.74	49.95	190.27
2034	57.77	61.64	52.65	194.63
2035	59.33	63.24	54.12	199.09

12. Portfolio Scenarios

Introduction

The PRS is Avista's strategy to meet future loads. In case the future is different from the IRP forecast, the strategy needs to be flexible enough to benefit customers under the new future. This chapter investigates the cost and risk impacts to the PRS with different futures the utility might face. It reviews the impacts of losing a major generating unit, evaluates alternative load forecasts, determines the impact of unit sizing, and the selection of portfolios to the right of the efficient frontier. This chapter also identifies the capital cost tipping points for solar, storage and demand response options.

Chapter Highlights

- Lower or higher future loads do not materially change the resources strategy.
- Colstrip remains a cost-effective and reliable source of power to meet future customer loads.
- Without Colstrip in 2027, customer bills increase \$58 million.
- A \$19 per metric ton social cost of carbon market scenario increases customer's costs by \$67 million per year levelized.
- Tipping point analysis suggests utility scale solar costs would need to decline another 48 percent to be in the Preferred Resource Strategy.

Mixed Integer versus Linear Programming

PRiSM is a mixed integer model that selects resource options at predetermined and fixed quantities. This ensures the model selects resources commercially available in the marketplace. For example, if the utility was short 45.3 MW, the model cannot select a 45.3 MW resource. Rather it must choose among unit sizes actually for sale in the marketplace. This methodology creates lumpy resource additions, meaning the utility will be long on capacity and must grow into it. Figure 12.1 shows the impact of lumpy resource acquisitions on the efficient frontier. In this case, the costs average 0.5 percent higher. In addition to higher costs, resources mixes on the efficient frontier changes, as the model no longer must select among a more limited set of resource options. The resources selected across the efficient frontier under a linear programming model are in Table 12.1. This methodology creates a smoother transition of peakers to CCCTs and energy efficiency increases at a smoother rate than the integer-based model

Figure 12.1: Linear versus Integer Efficient Frontier Difference

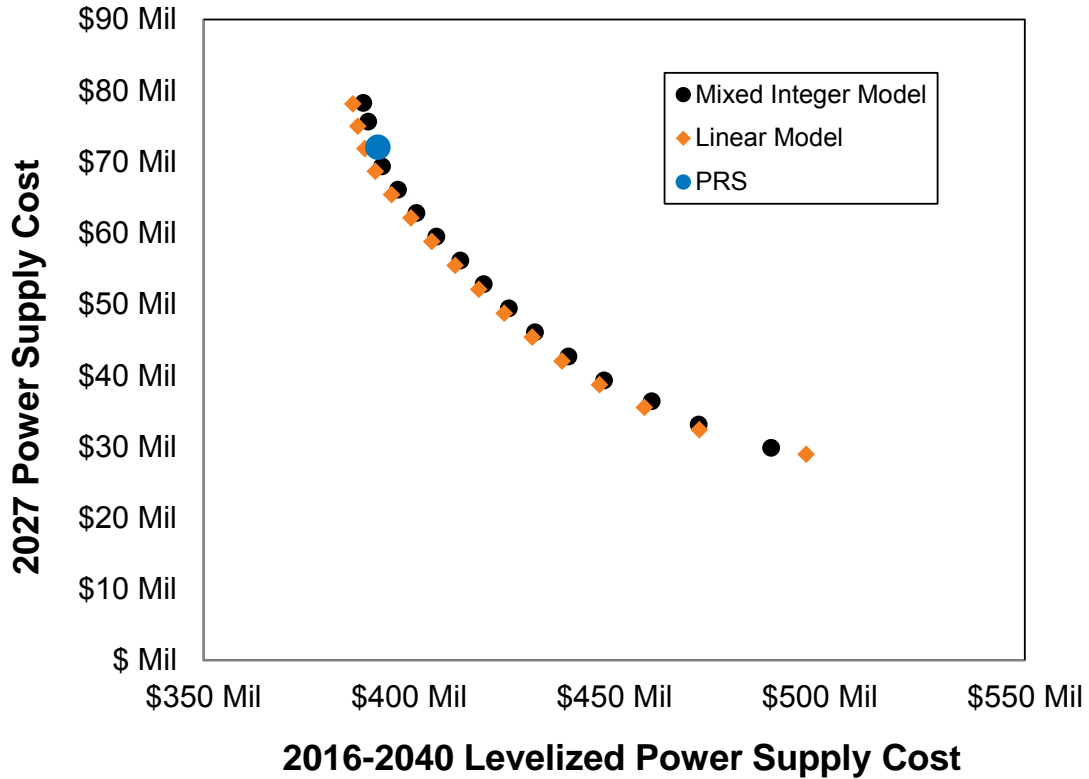


Table 12.1: Efficient Frontier with Linear Programming

Portfolio	NG Peaker	NG CCCT	Wind	Solar	Thermal Upgrade	Hydro Upgrade	Energy Efficiency
Least Cost	500	-	-	-	41	-	130
2	367	129	-	-	41	-	133
3	222	274	-	-	41	-	133
4	79	414	-	-	41	-	135
5	58	429	60	-	41	-	139
6	56	431	132	-	41	-	139
7	48	439	202	-	41	-	139
8	41	445	276	-	41	-	139
9	41	445	352	-	41	-	140
10	30	456	400	46	40	-	140
11	29	458	478	50	38	-	141
12	6	480	500	143	38	-	141
13	-	515	500	282	38	-	141
14	-	549	500	446	38	-	141
15	-	674	500	523	12	-	144
Least Risk	-	855	500	600	12	57	147

Load Forecast Scenarios

The PRS assumes energy load grows at 0.6 percent, and peak demand grows at 0.68 percent over the next 20 years. This estimated growth uses the best information available. However, it is prudent to develop alternative PRS's for alternative load forecasts. Chapter 3 provides details about the three alternative load forecasts developed for this IRP. Table 12.2 summarizes the alternative growth assumptions. The high and low load scenarios use different assumptions regarding population than the Expected Case. The increased DG solar scenario assumes the same economic growth rate as the Expected Case, but assumes 10 percent of residential customers will install rooftop solar with up to a 6 kW system by 2040.

Table 12.2: Load Forecast Scenarios (2016-2035)

Scenario	Energy Growth (%)	Winter Peak Growth (%)	Summer Peak Growth (%)
Expected Case	0.6	0.7	0.8
High Load	0.8	0.9	1.1
Low Load	0.2	0.6	0.7
Increased DG Solar	0.4	0.7	0.6

Table 12.3 shows the change to the PRS for each load scenario. In the High Load scenario, 97 MW of additional natural gas-fired peakers meet the added load growth, while the Low Load scenario reduces the amount of peakers by 46 MW. Both of these changes in resource acquisition similarly follow the changes in load. The quantity changes between the High and the Low Load scenarios are not significant because expiring contracts is more of a driver of Avista's resource needs than load growth.

The Increased DG Solar scenario provides interesting results. In this scenario, where energy generation increases and summer peak loads are lower due to customers generating their own power, the PRS does not change. The winter peak load drives Avista's resource acquisition needs, so this scenario does not change the resource strategy, as DG solar does not produce energy between the hours of 5:00 pm and 7:00 pm in the winter unless storage is involved. This results in the same resource build, but with fewer energy sales.

Load forecasts changes can also come in the form of new large loads or loss of an existing large load. In both cases, the change will likely be short notice. Avista plans to meet these events by utilizing the energy market. In the event of a loss in load, this will lessen or defer future requirements. In the event of a new large load, the market place will be utilized until a long-term solution can be identified.

Table 12.3: Resource Selection for Load Forecast Scenarios

Resource	Expected Case's PRS	High Loads	Low Loads	Increased DG Solar
NG Peaker	239	335	192	239
NG Combined Cycle CT	286	286	286	286
Wind	0	0	0	0
Solar	0	0	0	0
Demand Response	0	0	0	0
Thermal Upgrades	41	41	41	41
Hydro Upgrades	0	0	0	0
Total	565	662	519	565

Colstrip Retirement Scenarios

The 2013 IRP included an evaluation of retiring all Avista's Colstrip assets. Colstrip is a large multi-owner coal-fired plant in Eastern Montana. Some coal-fired plants across this country are closing or facing significant capital investments to improve air emissions. Colstrip also faces these choices. The 2013 IRP's acknowledgement letter in Washington requested Avista continue to assess the impacts of a hypothetical portfolio without Colstrip and provide impacts to rates.¹ TAC members requested a second study to analyze higher projected operating costs and shorter EPA compliance timelines. This section describes the assumptions and the results of the Colstrip retirement scenarios.

Modeling results for Colstrip indicate Avista ownership interests in the plant will remain cost effective for the next 20 years. This IRP assumes certain capital investments will satisfy future state and federal regulations over the IRP timeframe. The type, amount, and timing of capital expenditures are estimates used for modeling purposes because exact dates and costs are unknown at this time. Future IRPs will update assumptions as more and better information is available. The potential capital investments include emerging requirements related to coal combustion residuals (CCR) and Regional Haze-related controls. Other environmental regulations may drive future investment requirements, such as ash pond improvements and the installation of a system for NO_x control. IRP modeling assumes that a default control system of a selective catalytic reduction (SCR) will be required by the end of 2026, but the specific target date or control type is unknown at this time.

The first Colstrip scenario assumes the plant closes by the end of 2026. This closure date would eliminate capital spending for the SCR, accelerate the costs to decommission the ash ponds, and it would alter the ongoing capital and O&M spending at the plant. This scenario assumes all costs related to existing and future capital spending would fully depreciate five years after closure. This scenario also assumes capital spending for pond closure and no additional shutdown costs beyond the amount included in the depreciation study. The scenario does not include any costs related to a

¹ Washington State UTC acknowledgement Letter UE-121421, Avista Corp 2015 Electric IRP

potential state assessment in response to an early plant closure, plant employee retraining and relocation costs, payments to other owners, or costs to decommission the plant beyond those included in current rates.

The results of the 2026 year-end closure scenario require 208 MW of new winter capacity, assuming the replacement resource was in Avista’s balancing area. Table 12.4 provides details about the new resource strategy in this scenario. The strategy for this scenario adds a second CCCT to replace the lost Colstrip capacity and to serve future load growth. Figure 12.2 shows a full efficient frontier analysis for this scenario. This analysis shows levelized power supply costs would increase \$13.2 million or 3.6 percent per year. The portfolio risk would increase by \$12 million in 2027 or 16.6 percent. While the 3.6 percent cost impact appears to be modest due to levelizing large future costs across the 20-year study timeframe, the annual cost increases in Figure 12.3 are significant beginning in 2027.

Between 2016 and 2021, the customer costs increase due to the accelerated recovery of the existing capital investment. In 2022-2026, the model assumes spending to maintain and improved the plant continues at a lower rate, but much of the costs typically classified as capital spending become expenses, leading to an earlier recovery of spending. The elimination of the SCR investment would offset and lower recovered Colstrip costs as high cost investments are removed. The biggest cost to customers is the replacement capacity. In 2027, this amounts to \$68 million in added costs, or 13 percent. To put this into perspective, Avista’s 2015 electric revenue requirements are \$900 million. Assuming non-power supply costs increased at the rate of load growth, closing Colstrip alone would increase customer rates by 5.7 percent the first year of closure.

In exchange for higher customer costs, Avista’s greenhouse gas emission will decline by 900 million metric tons per year or approximately 32 percent. Figure 12.4 shows the change in emissions by year. In 2027, the first year of closure the cost per saved ton equals \$66 per metric ton.

Table 12.4: Colstrip Retires in 2027 Scenario Resource Strategy

Resource	By End of Year	ISO Conditions (MW)
Natural Gas-Fired Peaker	2020	96
Thermal Upgrades	2021-2025	38
CCTs	2026	627
Total		761
Conservation (w/ T&D losses)	2016-2035	130.7

Figure 12.2: Colstrip Retires Scenario Efficient Frontier Analysis

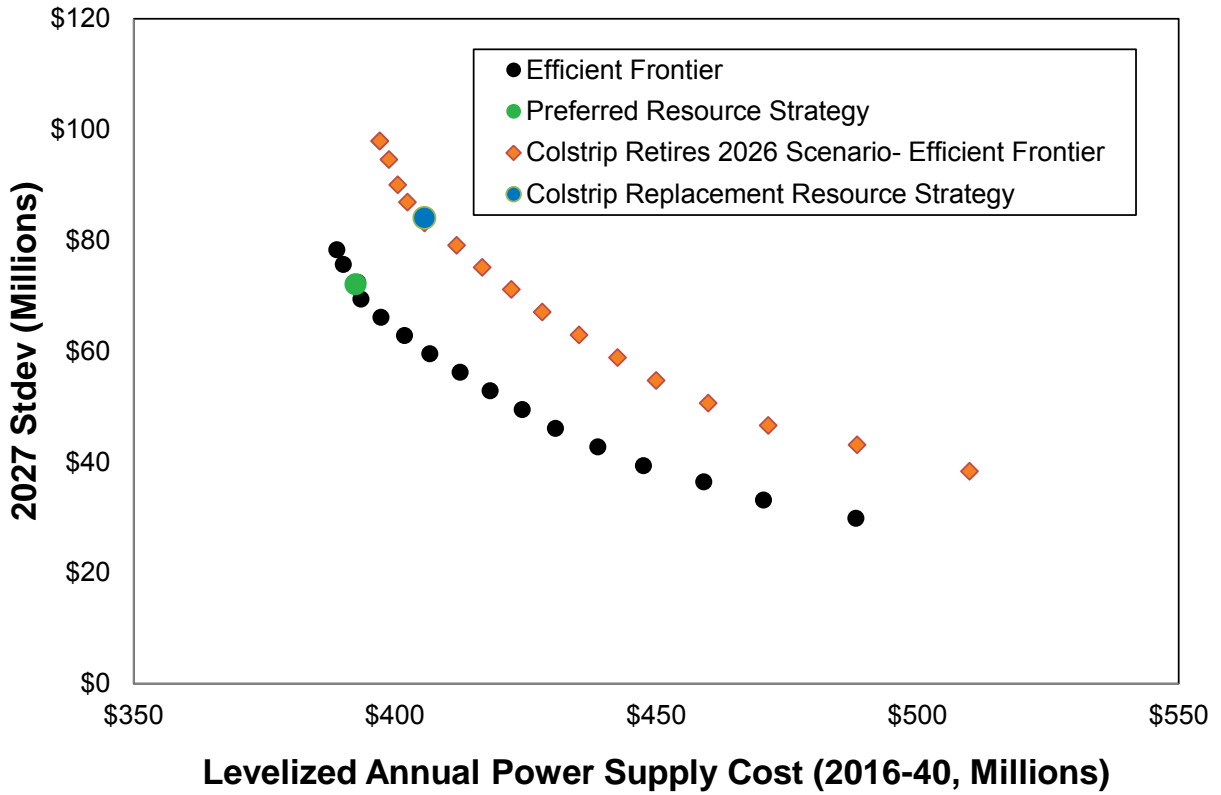


Figure 12.3: Colstrip Retires in 2027 Scenario Power Supply Cost Impact

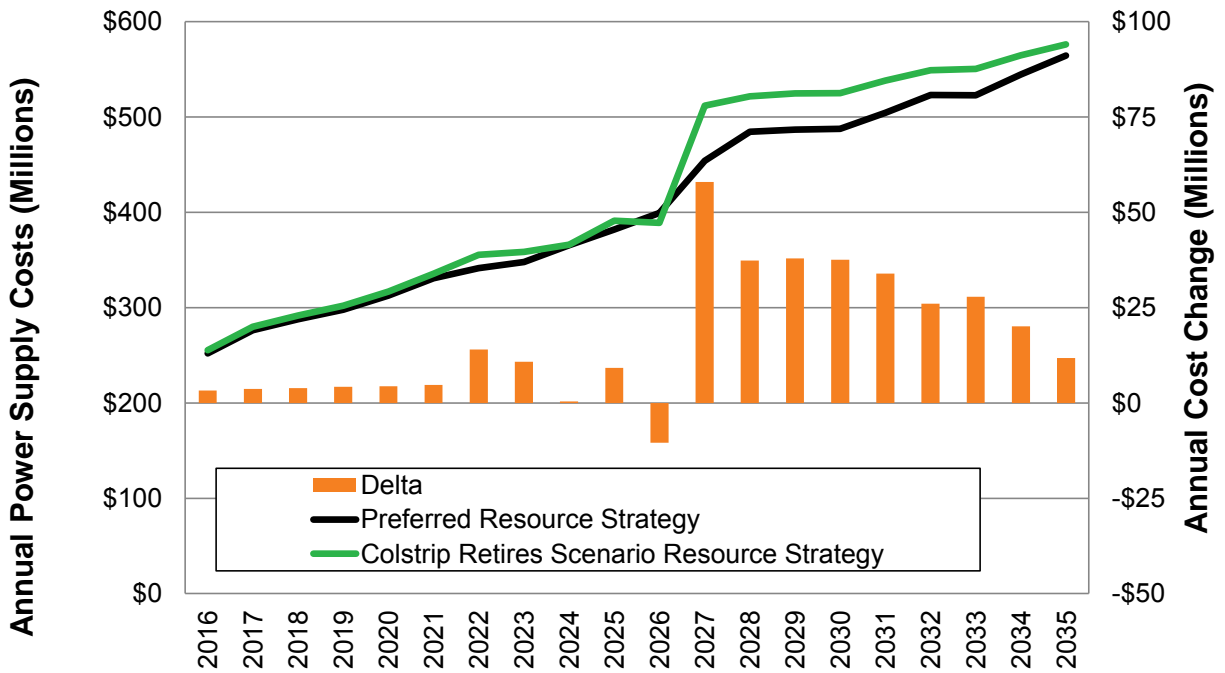
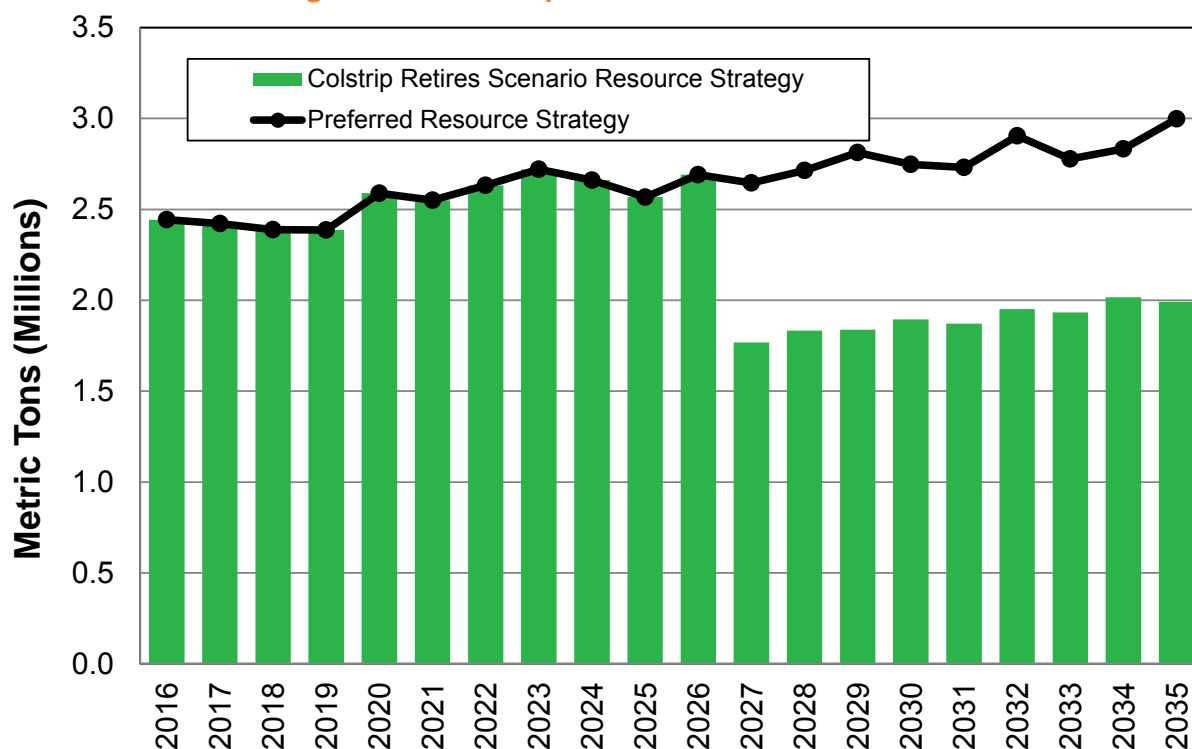


Figure 12.4: Colstrip Retires in 2027 Emissions



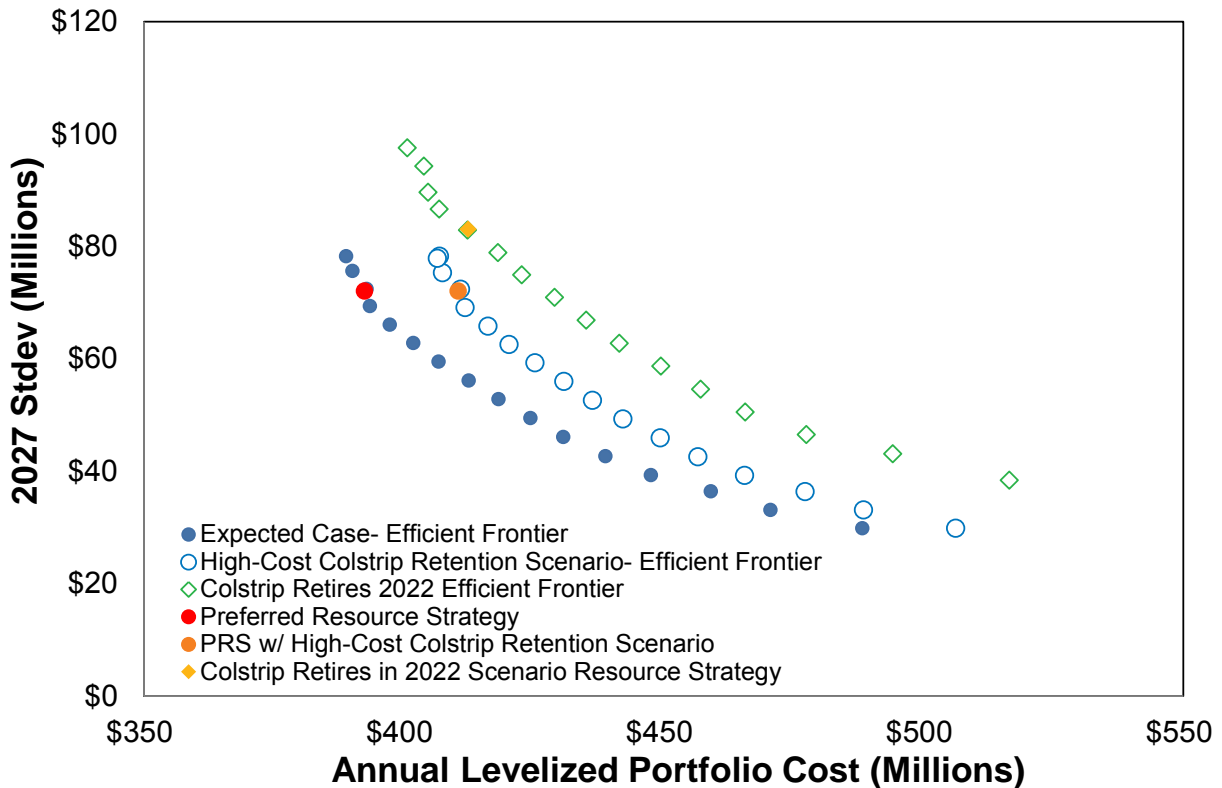
The second Colstrip closure scenario is the High-Cost Colstrip Retention scenario proposed by the TAC. This case assumes replacement of the existing SO₂ scrubbers, conversion to dry ash handling, landfill replacement, acceleration of the SCR installation to 2022, and added costs for O&M due to Colstrip units 1 & 2 retiring in 2017. Avista has not vetted these assumptions, nor does Avista expect any of these costs to materialize. The Colstrip Retires in 2022 scenario closes the plant in 2022 to avoid higher ongoing costs. The resource strategy for this scenario is in Table 12.5, and it is very similar to the portfolio scenario with the plant retiring in 2027, but this scenario offsets other plant requirements differently causing a small increase in capacity need (770 MW versus 761 MW).

The High-Cost Colstrip scenario in Figure 12.5 uses the efficient frontier methodology to measure cost and risk. The High-Cost Scenario increases fixed costs by \$18 million per year levelized between 2016 and 2040 and the risk level does not change. In Colstrip Retires in 2022 scenario, the costs increase an additional \$2 million per year, but risk increases by \$11 million in 2027. The annual costs for these scenarios are in Figure 12.6 in 2023. The first year without Colstrip costs increase by \$19 million compared to the plant operating with the higher costs. This scenario shows with higher operating costs, the plant is still marginally economic to continue operating.

Table 12.5: Colstrip Retires in 2022 Scenario Resource Strategy

Resource	By End of Year	ISO Conditions (MW)
Natural Gas Peaker	2020	56
Thermal Upgrades	2021-2035	41
Combined Cycle CTs	2023-2026	627
Natural Gas Peaker	2035	47
Total		770
Conservation (w/ T&D losses)	2016-2035	131

Figure 12.5: High-Cost Colstrip Retention Scenario Efficient Frontier



Social Cost of Carbon Market Scenarios

Chapter 10 described alternative market scenarios; one of the scenarios modeled was the market impact of a social cost of carbon added to all carbon emissions. This section describes the cost and portfolio impacts of such a market environment to Avista. Figure 12.7 is the efficient frontier of the Expected Case compared to the efficient frontier developed for the Social Cost of Carbon market scenario. With the social cost of carbon, the cost of the PRS increases by \$67 million per year, or 17 percent. Risk also increases by \$4 million or 6 percent in 2027 for the same portfolio as the PRS.

Figure 12.6: High-Cost Colstrip Scenarios Annual Cost

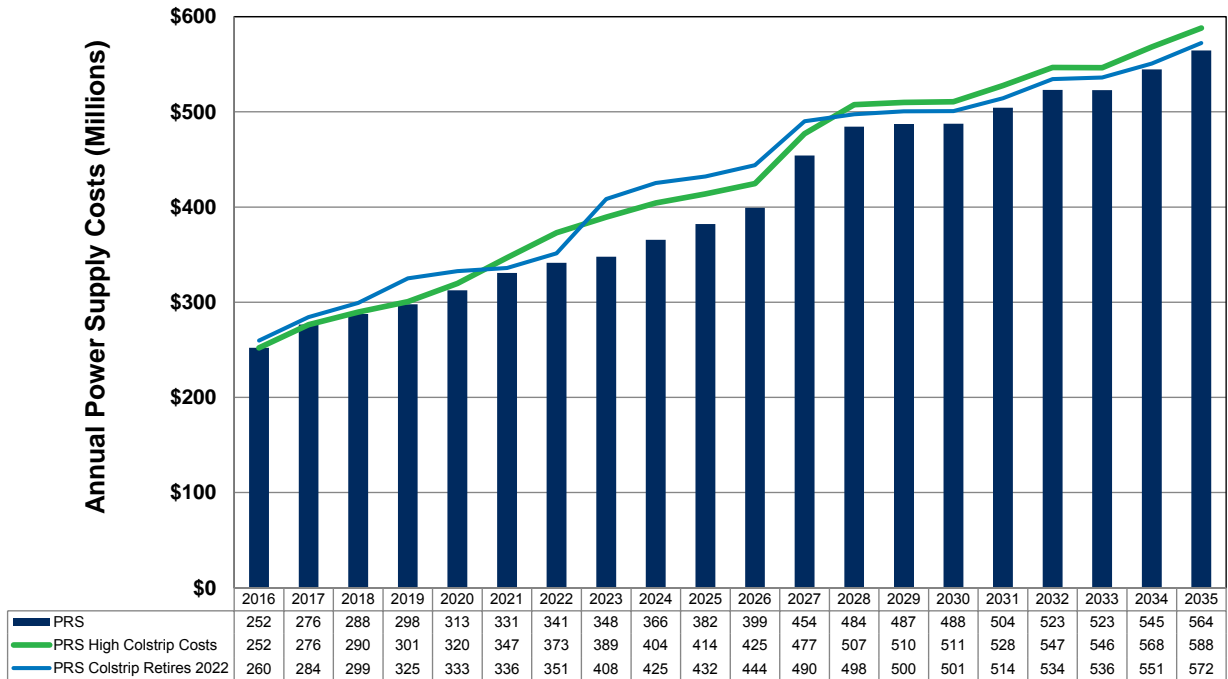
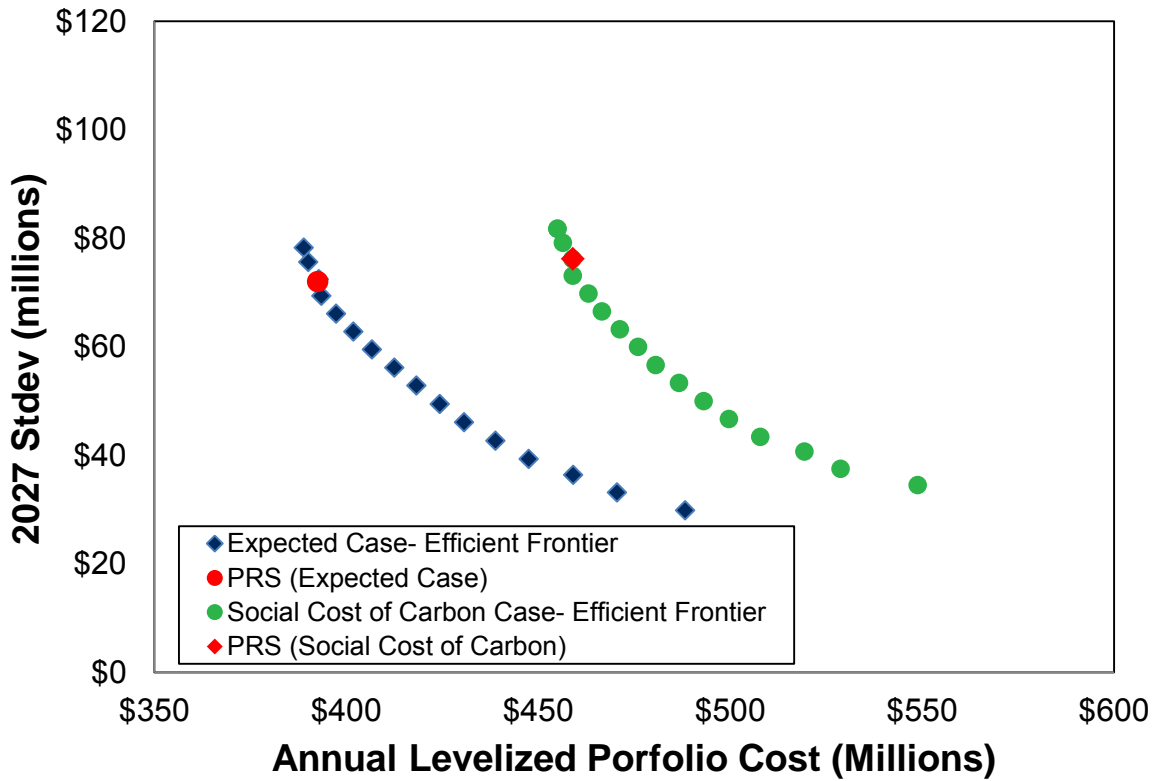


Figure 12.7: Social Cost of Carbon Impact to Efficient Frontier



Colstrip Retires in 2027 with Social Cost of Carbon

Adding a fee to emit carbon will increase costs to the portfolio. This scenario analyzes the cost effectiveness of keeping Colstrip open with the Social Cost of Carbon adder. The cost of retiring Colstrip is approximately \$6 million higher per year with the plant closed compared to operating with the additional carbon pricing. Not only are costs higher, but risk increases by 15 percent (see Figure 12.8). This indicates Colstrip is still economic even with the higher level of carbon pricing. The High-Cost Colstrip Retention scenario showed an \$18 million dollar increase in fixed costs, this scenario alone showed the plant to be marginally economic, but the High-Cost Colstrip scenario combined with the Social Cost of Carbon would make the plant uneconomic. The Social Cost of Carbon case reduces carbon emissions without Colstrip retiring. In this scenario, emissions decline by 12 percent; if Colstrip retires, emissions fall a total of 24 percent (See Figure 12.9).

Figure 12.8: Colstrip Retires in 2027 Scenario with Social Cost of Carbon Market Scenario

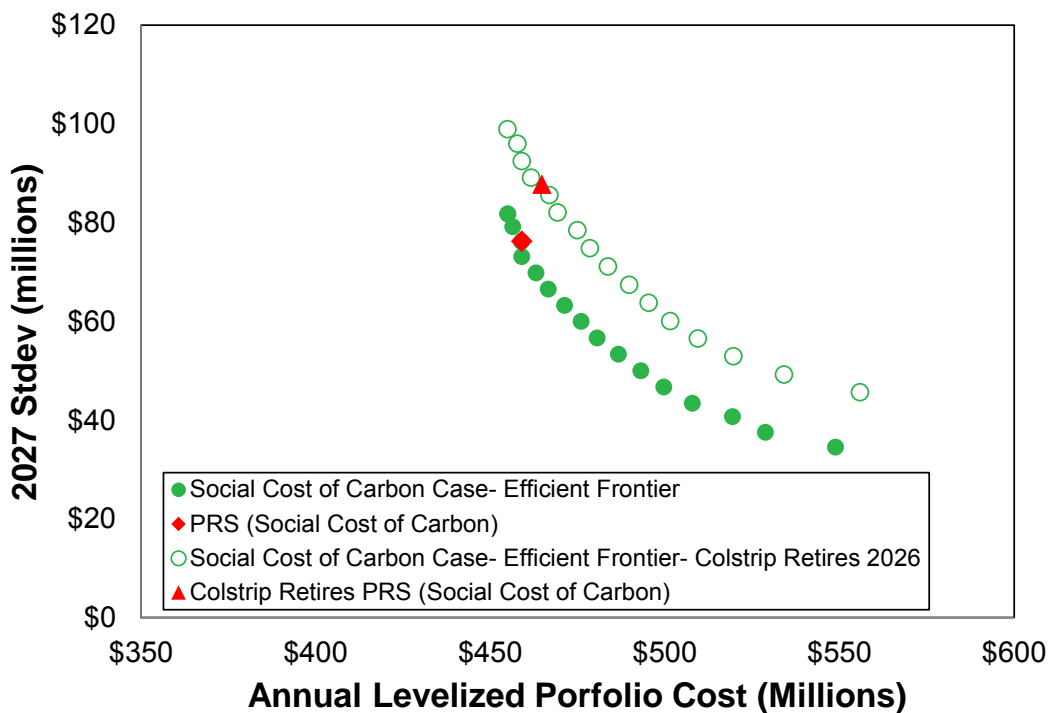
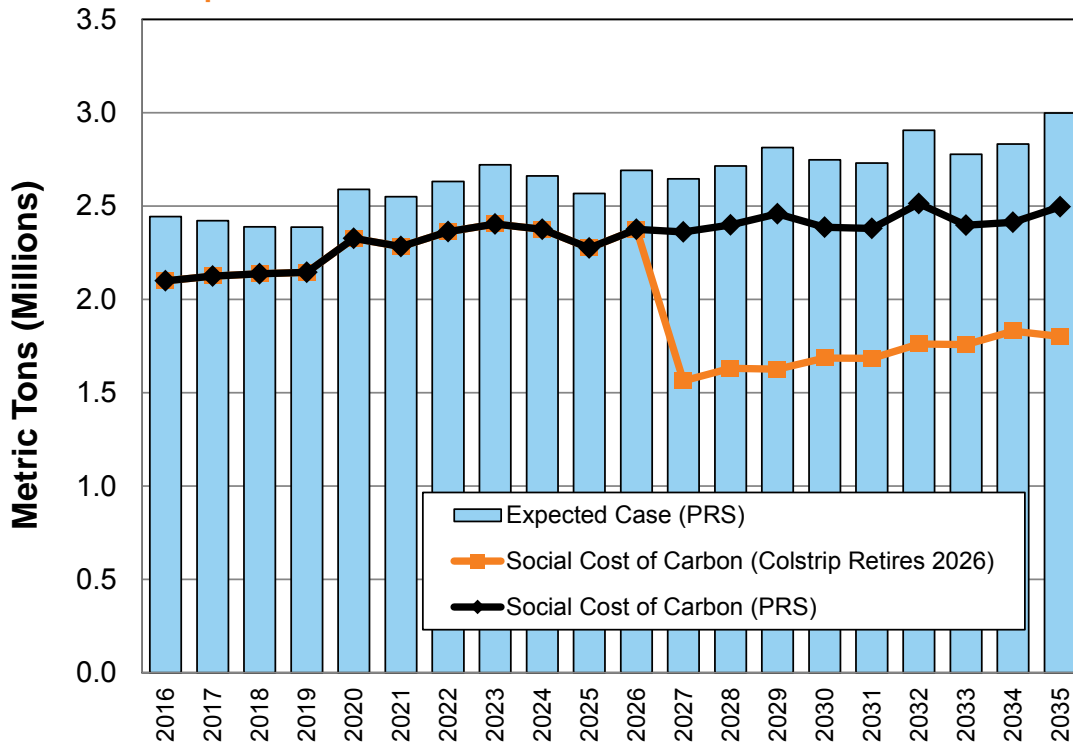


Figure 12.9: Colstrip Retires in 2027 Scenario with Social Cost of Carbon Market Scenario



Other Resource Scenarios

Several other resource portfolio studies using the Expected Case’s market forecast formed the following analyses. The following portfolios show the financial impact of different choices in meeting future resource deficits. They are similar to the handpicked resource strategy for IRP’s before sophisticated modeling tools. Figure 12.10 shows the levelized cost and 2027 risk compared to the efficient frontier.

Market and Conservation

The Market and Conservation portfolio shows the cost and risk if the utility chose not to fill its capacity need with generation assets, and instead depended on the wholesale market for its future needs. This portfolio helps estimate the value of capacity in the PRS. This scenario assumes the same amount of conservation as the PRS. This portfolio’s cost is \$28 million per year levelized lower than the least cost portfolio, and the risk is \$1 million higher in 2027. The cost difference between this portfolio and the least cost represents the cost of capacity or the added cost of reliability. Given this strategy does not meet reliability targets, it is not an acceptable portfolio. Utilities may lean toward this type of portfolio when the market place is long on resources.

2013 Preferred Resource Strategy

This portfolio emulates the strategy selected in the 2013 IRP. The 2013 PRS portfolio includes the resources described in Chapter 11, predominantly natural gas-fired peakers, a CCCT, and demand response. The portfolio reflects the current lower load growth trajectory by eliminating a peaker from the previous strategy. This strategy’s

levelized cost is \$3 million higher than the PRS, and risk is \$1.5 million higher in 2027. With the exception of the demand response, this portfolio is similar to the current PRS results with similar metrics for cost and risk.

Renewables Meet All Load Growth

The Renewables Meet All Load Growth scenario is similar to a higher RPS scenario. The objective is to meet all energy load growth with renewables along with meeting capacity requirements. This scenario assumes energy grows by 126 aMW and assumes meeting the energy needs with new acquired renewable resources and capacity needs in a similar manner as the current RPS. The model selected 250 MW of wind (87 aMW) with a 20 percent apprentice REC credit, plus an upgrade to the Kettle Falls plant; with rollover ability, these renewables meet the 126 aMW requirement each year.

The added renewables, in addition to the capacity resources, add \$18 million per year to power supply expenses, and lower risk in 2027 by \$3 million. Avista could get the same amount of risk reduction by selecting a portfolio on the efficient frontier with an annual \$15 million reduction in cost.

Hydroelectric Upgrades and Peakers

This scenario uses a combination of peakers and hydroelectric upgrades to meet future capacity needs. The scenario completes major upgrades at Long Lake and Monroe Street during the IRP timeframe; Natural gas-fired peakers meet all remaining capacity needs. Costs increase by \$6 million per year in this scenario, and risk increases by \$4 million. An interesting result from the scenario is the increased risk metric. Typically, more renewables reduce risk, but since hydro is highly correlated with the northwest marketplace, the upgrades actually increase risk relative to the PRS.

Peakers and Hydro Total Portfolio

A future with no coal or baseload natural gas resources is the premise of this scenario. It retires Avista's CCCTs and coal by 2027, replacing them with upgrades at hydroelectric facilities and the construction of natural gas-fired peaking plants. It assumes the rest of the northwest marketplace continues with its current resource mix. Levelized costs in this scenario increase by \$20 million per year. Risk increases by \$27 million in calendar year 2027, and costs are \$80 million higher compared to the PRS.

Risk-Adjusted PVRR

Avista believes efficient frontier analysis paired with robust analytics and data is a superior method to measure tradeoffs between average costs and risk. Chapter 11 details the risk-adjusted PVRR methodology used to analyze the efficient frontier. Risk-adjusted PVRR is helpful with measuring risk in handpicked portfolios that do not fall on the efficient frontier, or where the efficient frontier is not part of the IRP process. Figure 12.11 shows the risk-adjusted PVRR analysis results for the other resource strategy scenarios in this section. The portfolio with the lowest cost is the Market and Conservation portfolio. This portfolio does not meet reliability objectives of the IRP, and is not an acceptable option. The next lowest cost portfolio is the PRS, followed by the 2013 PRS.

Figure 12.10: Other Resource Strategy Portfolio Cost and Risk

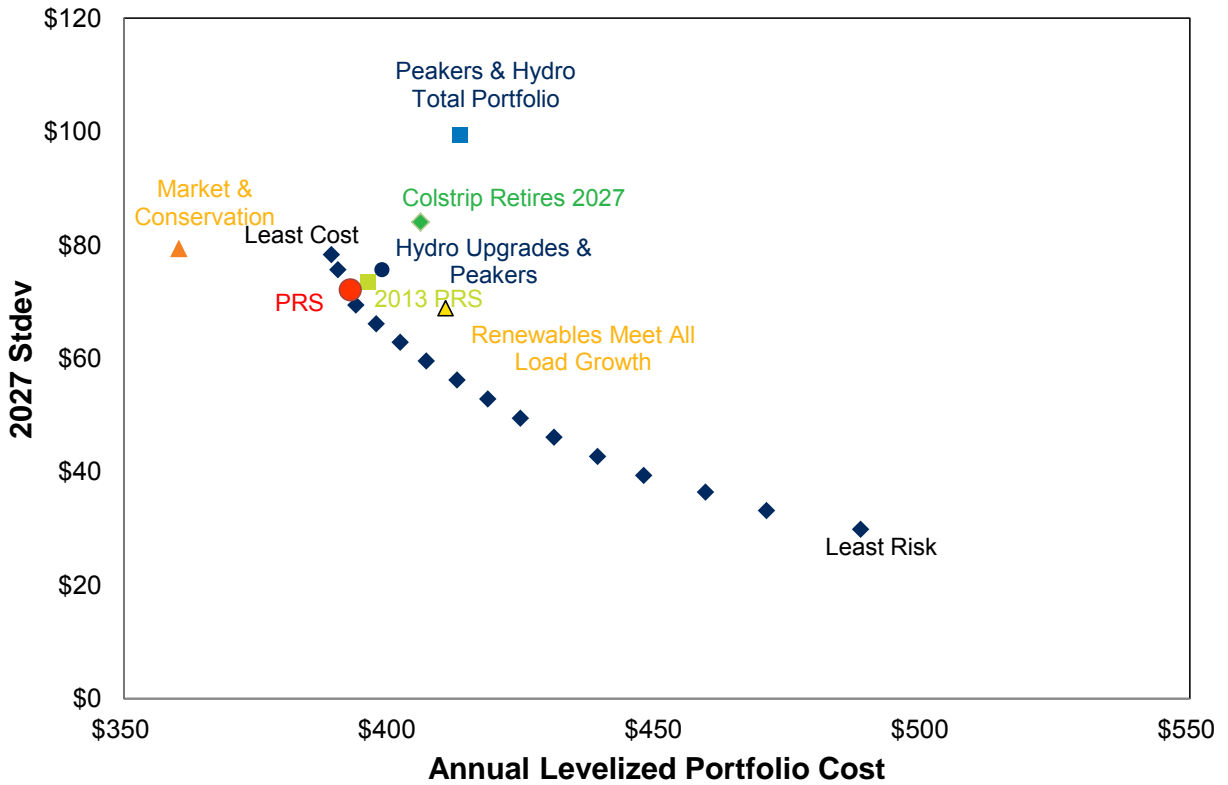
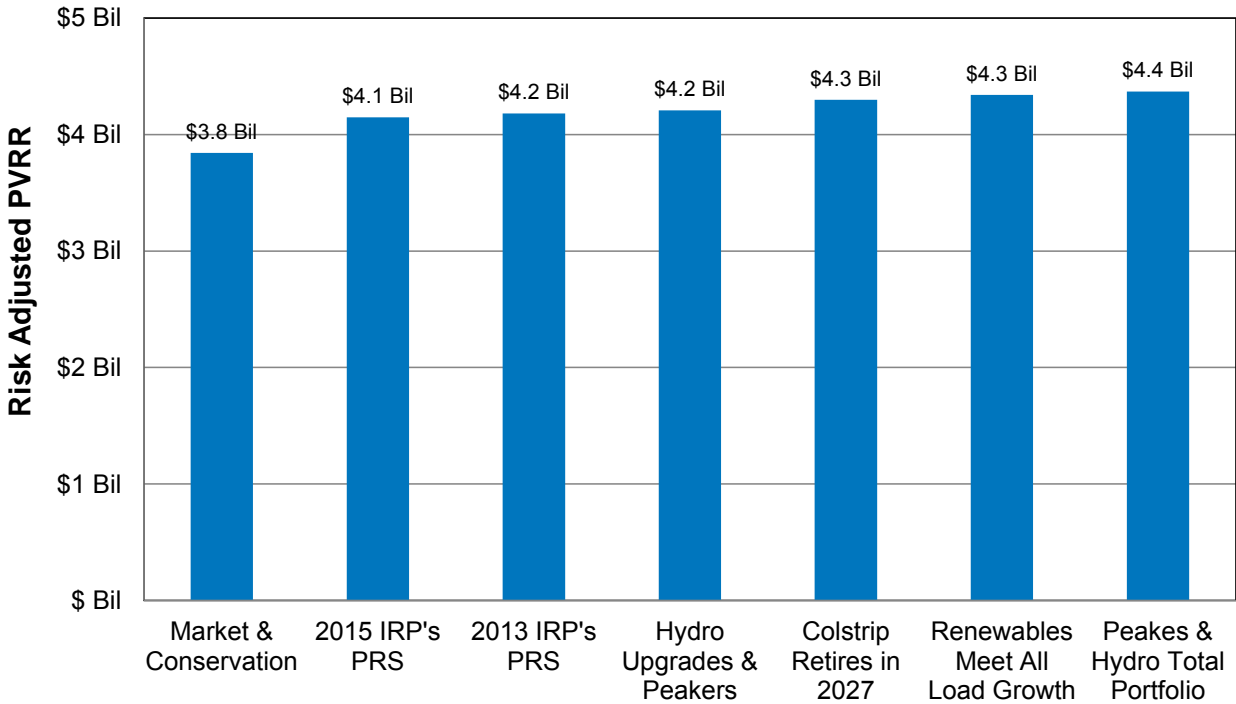


Figure 12.11: Risk Adjusted PVRR (2016- 2035)



Resource Tipping Point Analysis

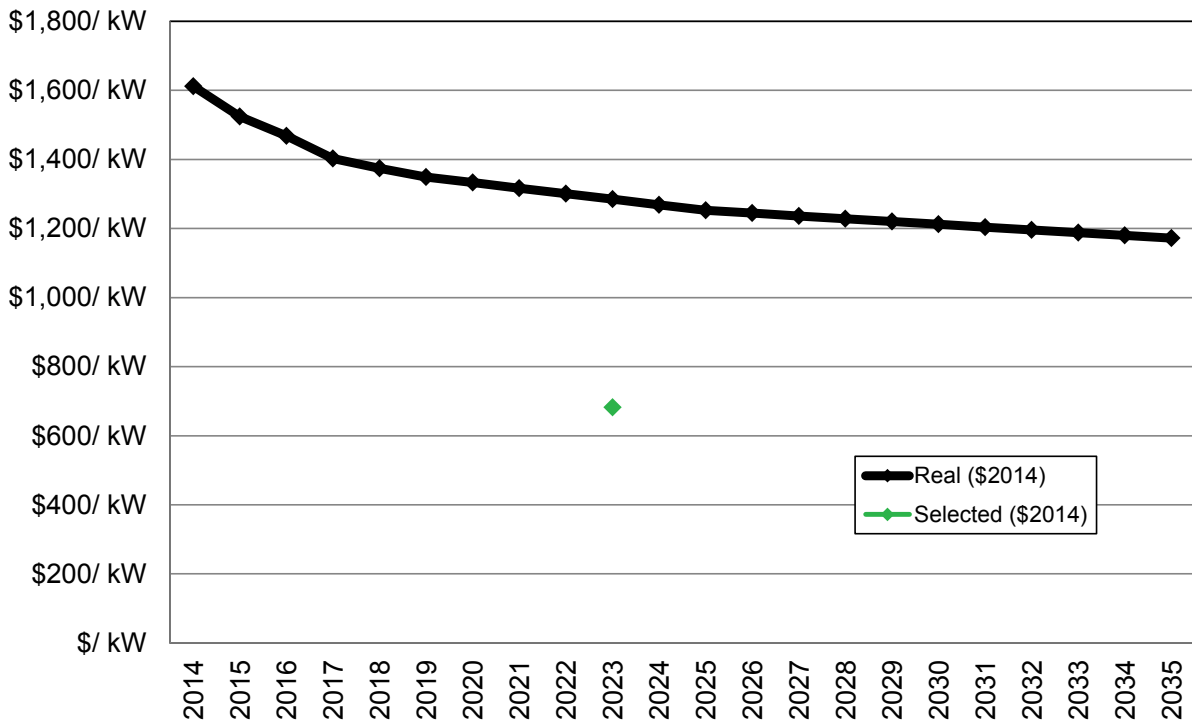
Recent IRPs study how much capital costs need to change before a different resource selection occurs through a tipping point analysis. The 2013 IRP included solar, nuclear, and IGCC coal tipping point analyses. This IRP includes solar, energy storage, and demand response tipping point studies. Tipping point analysis are important, as emerging technology’s prices generally do not follow typical inflation, this allows the company to know when to react to price changes.

Utility Scale Solar

This IRP assumes utility scale solar has a \$1,500 per kW capital cost for fixed panel, and \$1,600 per kW for single-axis tracking panel (2014 dollars) facilities. Avista estimates the cost of solar will decline in real dollars by 27 percent over the 20-year planning horizon. The 10 percent federal investment tax credit is available after 2016. The fixed O&M and transmission interconnect costs are considered fixed for this analysis. The analysis assumes a 0.7 percent adder for AFUCD as explained earlier in this document. Solar does not provide winter on-peak capability. Therefore, the resource must be cost competitive with wholesale market commodity prices to be selected in this analysis.

This analysis decreases the capital cost of single axis solar in PRiSM until the model selects the resource in the PRS. This analysis first selects solar in 2023 with a price of \$682 (2014 dollars) per kW (or \$829 nominal). Figure 12.11 shows the solar cost curve and the point where solar becomes economic to Avista. This point is a 47 percent price reduction beyond current IRP estimates.

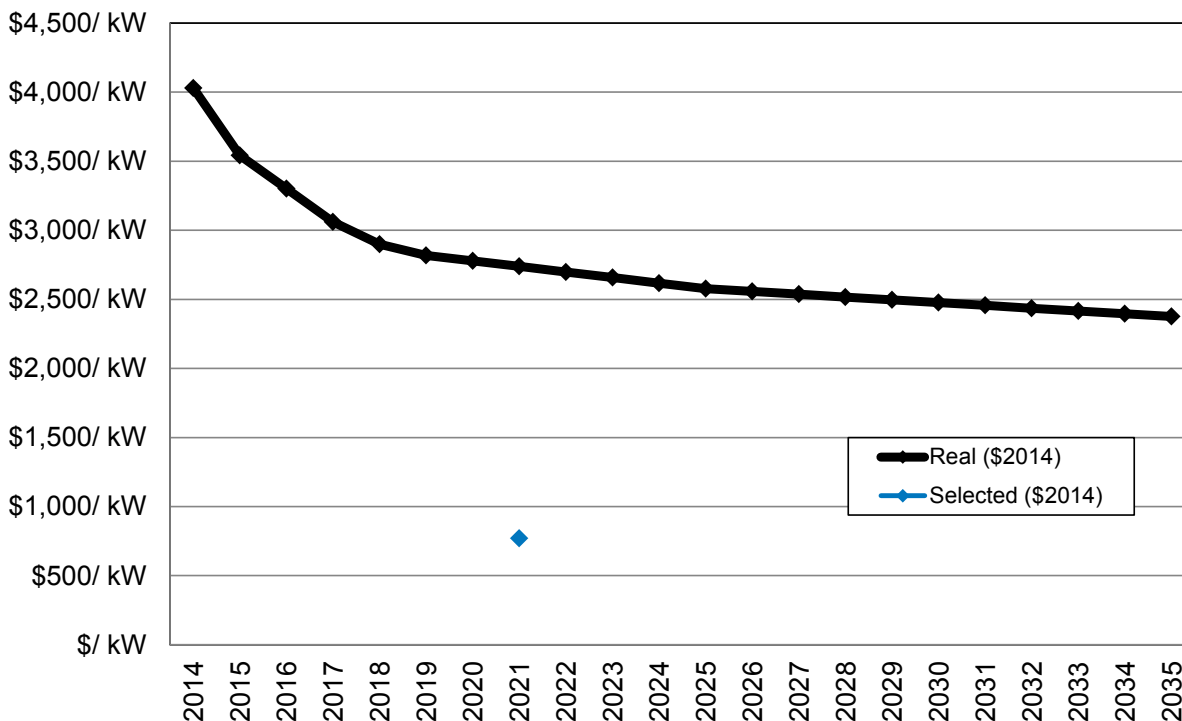
Figure 12.12: Utility Scale Solar Tipping Point Analysis (2014 \$)



Utility Scale Energy Storage

Energy storage could be a future resource for utilities and their customers. As the amount of intermittent generation grows, many believe energy storage will help integrate these resources into the electricity grid. There are many types of energy storage technologies, but this study remains agnostic to the technology and only looks at how costs change, as long as each technology performs similarly. Similar to solar generation, energy storage costs should decline as the technology becomes more common. Although, unlike solar, energy storage can meet on peak needs, it consumes significant amounts of energy in the form of losses in the process. The Expected Case assumes storage at \$4,000 per kW in 2014 plus 0.7 percent AFUDC. By the first capacity need in 2021, utility scale energy storage is expected to be \$2,736 per kW (2014\$) or \$3,201/kW nominal. PRiSM first selects storage in 2021 with a price 770 per kW in 2014 dollars or a 72 percent reduction in capital costs.

Figure 12.13: Utility Scale Storage Tipping Point Analysis (2014 \$)



Demand Response

Demand response was part of the PRS in Avista’s 2013 IRP. At that time, the costs were internal estimates; since then, Avista sponsored a study to determine the demand response costs and quantities available. The results of the study showed higher prices than the 2013 plan, and the higher costs meant demand response is not in this plan. This study attempts to test the price demand response would be selected. Demand response’s costs are built between some capital investment and O&M spending. This study looks at the cost effectiveness of the firm curtailment option, and has no capital cost and assumes \$217 per kW-year levelized for O&M payments between 2023 and

2035. Given the resource is small and does not reduce risk; PRiSM was modified to pick the least cost portfolio without constraints on size. Demand response is first selected at a cost of \$117 per kW-year levelized between 2023 and 2035. This is a cost reduction of 46 percent.

13. Action Items

The IRP is an ongoing and iterative process balancing regular publication timelines with pursuing the best 20-year resource strategies. The biennial publication date provides opportunities to document ongoing improvements to the modeling and forecasting procedures and tools, as well as enhance the process with new research as the planning environment changes. This section provides an overview of the progress made on the 2013 IRP Action Plan and provides the 2015 Action Plan.

Summary of the 2013 IRP Action Plan

The 2013 Action Plan included three categories: generation resource related analysis, energy efficiency and transmission planning.

2013 Action Plan and Progress Report

Generation Resource Related Analysis

- Consider Spokane and Clark Fork River hydroelectric upgrade options in the next IRP as potential resource options to meet energy, capacity and environmental requirements.
 - This IRP continues incorporating hydroelectric upgrades as resource options in the PRS and scenario analysis. Chapter 9 – Generation Resource Options provides details about the hydroelectric upgrades evaluated for this IRP.
- Continue to evaluate potential locations for natural gas-fired resources identified to be online by the end of 2019, including environmental reviews, transmission studies, and potential land acquisition.
 - The natural gas-fired peakers options included in this IRP assume both greenfield and brownfield sites in Northern Idaho. Avista is currently negotiating the purchase of property for a greenfield site. Information about this site will not be available publically until after the close of the potential transaction.
- Continue participation in regional IRP and regional planning processes, and monitor regional surplus capacity and continue to participate in regional capacity planning processes.
 - Avista continues to monitor and review other northwest utility's IRP processes.
 - The company also continues to participate in regional processes including the development of the Seventh Regional Power Plan, PNUCC studies and work by the Western Governors Association on various energy issues.
- Commission a demand response potential and cost assessment of commercial and industrial customers per its inclusion in the middle of the PRS action plan.

- Avista retained the services of AEG to study the amount and cost of different types of demand response programs available in the service territory. A discussion about the scope of this study occurred with the TAC during the first meeting on May 29, 2014 and the results presented at the fourth TAC meeting on February 24, 2015. Both of these presentations are available in Appendix A.
- The complete AEG demand response study is available in **Appendix X**.
- Continue monitoring state and federal climate change policies and report work from Avista’s Climate Change Council.
 - Several developments concerning state and federal climate change policies have occurred since publication of the 2013 IRP. Most notably, the CPP at the federal level and Washington Governor Inslee’s Executive Order 14-04 concerning climate change and subsequent proposed legislation concerning a cap and trade program at the state level.
 - Details about the CPP proposal and Governor Inslee’s Executive Order are available in Chapter 7 – Policy Considerations. Studies concerning these areas are included in chapter 12 – Portfolio Scenarios. The original presentations made to the TAC about these issues are in Appendix A.
- Review and update the energy forecast methodology to better integrate economic, regional, and weather drivers of energy use.
 - Please refer to Chapter 3 – Economic and Load Forecast for a detailed account of changes made to the energy forecast methodology to better integrate economic, regional and weather drivers of energy use. Avista’s chief economist presented the forecasting methodology updates at the second TAC meeting on September 24, 2014. The presentation is available in Appendix A
- Evaluate the benefits of a short-term (up to 24-months) capacity position report.
 - Avista implemented a short-term capacity model in late 2013. The tool assists in closing short capacity positions. An updated version of this tool added long-term functionality to develop resource positions for this plan.
- Evaluate options to integrate intermittent resources.
 - Avista completed development of the Avista Decision Support System (ADSS); this tool can model the costs and benefits of intermittent resources. A presentation about the model and the results of the value of thermal resources assisting with ancillary services study occurred at the May 19, 2015 Technical Advisory Committee meeting. This presentation is located in Appendix A.

Energy Efficiency

- Work with NPCC, the UTC, and others to resolve adjusted market baseline issues for setting energy efficiency target setting and acquisition claims in Washington.
 - Avista hired AEG to conduct the biannual CPA. The study complied with accepted NPPC methodologies to the extent possible by using measure savings identified by the RTF or estimated by AEG if unavailable from the RTF. Where RTF unit energy savings are utilized those savings will be symmetrically applied when Avista claims the energy savings for the biennium. AEG is currently in the process of updating inputs for the CPA to include indexing the CPA to the forecast and other economic factors to address changing market conditions.
- Study and quantify transmission and distribution efficiency projects as they apply to EIA goals.
 - Avista continues to invest in transmission and distribution projects including efficiency upgrades. Chapter 8 contains details about completed and announced projects.
- Assess energy efficiency potential on Avista’s generation facilities.
 - Avista completed an energy audit on owned generating facilities. Chapter 5 summarizes the results and **Appendix X** includes the audit reports.

Transmission and Distribution Planning

- Work to maintain Avista’s existing transmission rights, under applicable FERC policies, for transmission service to bundled retail native load.
 - Avista has maintained its existing transmission rights to meet native customer load.
- Continue to participate in BPA transmission processes and rate proceedings to minimize the costs of integrating existing resources outside of Avista’s service area.
 - Avista is actively participating in the BPA transmission rate proceedings.
- Continue to participate in regional and sub-regional efforts to establish new regional transmission structures to facilitate long-term expansion of the regional transmission system.
 - Avista staff participates in and leads many regional transmission efforts including the Columbia Grid and the Northern Tier Transmission Group Forums.

2015 IRP Two Year Action Plan

Avista's 2015 PRS provides direction and guidance for the type, timing and size of future resource acquisitions. The 2015 IRP Action Plan highlights the activities planned for possible inclusion in the 2017 IRP. Progress and results for the 2015 Action Plan items are reported to the TAC and the results will be included in Avista's 2017 IRP. The 2015 Action Plan includes input from Commission Staff, Avista's management team, and the TAC.

Generation Resource Related Analysis

- Analysis of the continued feasibility of the Northeast Combustion Turbine due to its age.
- Continue to review existing facilities for opportunities to upgrade capacity and efficiency.
- Increase the number of manufacturers and sizes of natural gas-fired turbines modeled for the PRS analysis.
- Evaluate the need for, and perform if needed, updated wind and solar integration studies.
- Participate and evaluate the potential to join a Northwest EIM.
- Monitor regional winter and summer resource adequacy.
- Participate in state level implementation of the CPP.

Energy Efficiency

- Continue to study and quantify transmission and distribution efficiency projects as they apply to EIA goals.
- Complete the assessment of energy efficiency potential on Avista's generation facilities.

Transmission and Distribution Planning

- Work to maintain Avista's existing transmission rights, under applicable FERC policies, for transmission service to bundled retail native load.
- Continue to participate in BPA transmission processes and rate proceedings to minimize costs of integrating existing resources outside of Avista's service area.
- Continue to participate in regional and sub-regional efforts to facilitate long-term economic expansion of the regional transmission system.

Production Credits

Primary Avista 2015 Electric IRP Team

Individual	Title	Contribution
Clint Kalich	Manager of Resource Planning & Analysis	Project Manager
James Gall	Senior Power Supply Analyst	Analysis/Author
John Lyons	Senior Resource Policy Analyst	Research/Author/Editor
Grant Forsyth	Senior Forecaster & Economist	Load Forecast
Richard Maguire	System Planning Engineer	Transmission & Distribution

2015 Electric IRP Contributors

Name	Title
Thomas Dempsey	Manager, Generation Joint Projects
Leona Doege	DSM Program Manager
Tom Pardee	Natural Gas Planning Manager
Shane Pacini	Manager Network Engineering
Eric Scott	Natural Gas Resources Manager
Mike Dillon	DSM Planning and Analytics Manager
Jeff Schlect	Senior Manager of FERC Policy and Transmission Services
Dave Schwall	Senior Engineer
Darrell Soyars	Manager of Corporate Environmental Compliance
Xin Shane	Power Supply Analyst
Debbie Simock	Senior External Communications Manager
Jason Graham	Mechanical Engineer

Contact contributors via email by placing their names in this email address format:
 first.last@avistacorp.com