



STATE OF IDAHO

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May 29, 2003

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RE: Case No. GNR-E-03-2

The Idaho Public Utilities Commission in Order No. 28708, Case No. GNR-E-99-1, established a methodology for the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip, a coal-fired generating facility in southeast Montana. For those QF contracts with Colstrip-related fuel costs and variable O&M, future Colstrip variable cost adjustments are to be calculated by using FERC Form 1 Colstrip Unit Coal Costs per megawatt hour (MWh) and adding \$2.00/MWh (the average variable O&M cost of Colstrip plus 20¢/MWh for generation taxes plus a five percent (5%) adjustment for line loss). As computed by Commission Staff the Colstrip related adjustable rate will change from 8.52 mill/kWh to 8.64 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba UP&L and Idaho Power Company. This change in the variable rate affects existing contracts under the previous SAR methodology.

The adjustable portion of the avoided cost rates under the Sumas-based methodology is based on annual average gas prices indexed at Sumas, Washington. As reported by Avista, the indexed gas prices have decreased by \$1.90/mmbtu. The approved gas price of \$5.23/mmbtu plus the \$1.90/mmbtu decrease results in a gas price of \$3.33/mmbtu for the 2003-2004 year. This equates to a SAR fuel cost of 24.48 mill/kWh as used in the model.

May 29, 2003

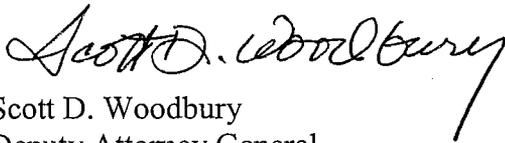
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IN THE MATTER OF THE ANNUAL REVISION AND UPDATED
CALCULATION OF THE ADJUSTABLE PORTION OF THE AVOIDED
COST RATES FOR AVISTA CORPORATION DBA AVISTA UTILITIES
FOR EXISTING PURPA CONTRACTS, FOR IDAHO POWER
COMPANY, AND FOR PACIFICORP DBA UTAH POWER & LIGHT
COMPANY.

Please file your respective responses with the Commission on or prior to June 16, 2003.

Thank you for your cooperation, please feel free to contact me or Rick Sterling if you have any questions.

Sincerely,



Scott D. Woodbury
Deputy Attorney General
(208) 334-0320

Enclosure

bls/L:GNRE0302_sw

COLSTRIP ADJUSTABLE RATE CALCULATION

For Period 7/1/03-6/30/04

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2002

| | | |
|---------|----------------------|--------------------|
| line 12 | Net Generation (kwh) | 1,397,105,000 |
| line 19 | Fuel | <u>\$9,276,929</u> |
| | Fuel cost per kwh | \$0.006640 |

| | |
|--|-----------------|
| Fuel Cost per MWh | \$6.6401 |
| Variable O&M, Gen. Tax, 5% line loss per MWh | <u>\$2.0000</u> |
| Total Colstrip Adjustable Rate | \$8.6401 |

Reference GNR-E-99-1 O.N. 28708 4/17/2001

Average Gas Prices at Sumas, Washington from Inside FERC publication
\$/MMBtu

Calculating the 2003-2004 Avoided Cost Adjustable Rate

| | <u>2001</u> | <u>2002</u> |
|---------|-------------|-------------|
| Jan | \$14.20 | \$2.52 |
| Feb | \$6.95 | \$1.87 |
| March | \$5.21 | \$2.13 |
| April | \$5.37 | \$3.15 |
| May | \$5.17 | \$2.82 |
| June | \$3.96 | \$2.42 |
| July | \$2.67 | \$1.90 |
| Aug | \$2.42 | \$1.87 |
| Sept | \$2.18 | \$2.54 |
| Oct | \$1.38 | \$3.06 |
| Nov | \$2.78 | \$3.92 |
| Dec | \$2.68 | \$3.96 |
| Average | \$4.58 | \$2.68 |

Actual Annual Adjustment:

$$\$5.23 - (\$4.58 - \$2.68) = \underline{\underline{\$3.33}}$$

NOTE:

\$2.00/MMBtu = 1997-98 Approved Rate.

\$2.35/MMBtu = 1998-99 Approved Rate.

\$2.26/MMBtu = 1999-00 Approved Rate.

\$2.80/MMBtu = 2000-01 Approved Rate.

\$4.82/MMBtu = 2001-02 Approved Rate

\$5.23/MMBtu = 2002-03 Approved Rate