

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
LEGAL

FROM: SCOTT WOODBURY

DATE: JUNE 15, 2007

SUBJECT: CASE NO. GNR-E-07-01 (Idaho Power, Avista, PacifiCorp)
ADJUSTABLE PORTION OF AVOIDED COST RATE
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.

CASE NO. PAC-E-07-09 (PacifiCorp)
ANNUAL VARIABLE ENERGY RATE ADJUSTMENT -
1992 AMENDMENT QF CONTRACTS.

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 should change from 9.38 mill/kWh to 11.47 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba Rocky Mountain Power 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 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 \$0.86/mmbtu. The approved gas price of \$7.80/mmbtu plus the \$0.86/mmbtu decrease results in a gas price of \$6.94/mmbtu for the 2007-2008 year.

This equates to a SAR fuel cost of 49.27 mill/kWh using a heat rate of 7,100 btu/kWh as used in the model for potential future contracts. For existing contracts signed under an assumed heat rate of 7,350 btu/kWh, this equates to a SAR fuel cost of 51.01 mill/kWh.

The Commission Staff by letter dated May 24, 2007, prepared by Staff Engineer Rick Sterling, calculated changes to the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip and Sumas for review by the respective utilities. Avista, Idaho Power and PacifiCorp by letter responses (attached) indicated that Staff's calculations are correct noting, however, that a heat rate of 7,350 btu/kWh should be used for the Sumas adjustment for existing contracts and a heat rate of 7,100 btu/kWh should be used for new contracts in accordance with Order No. 29124.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for existing PacifiCorp contracts with year 1992 amendments has also been recomputed: Beginning on July 1, 2003, the adjustable portion for these contracts was ordered to be equal to the average cost of fuel for the Carbon, Hale, Naughton, Huntington and Hunter generating plants, including a variable O&M component of \$1.51 but exclusive of generation taxes and a line loss adjustment. The variable energy rate applicable to deliveries commencing July 1, 2007 extending through June 30, 2008 has been computed by PacifiCorp to be \$12.17/MWh, an increase from \$12.03 last year.

COMMISSION DECISION

Under avoided cost methodology the adjustable portion of avoided cost rates for existing contracts is calculated annually for an effective date of July 1. Avista, Idaho Power and PacifiCorp agree with Staff's proposed calculations. Also adjusted annually is the adjustable portion of avoided cost rates for existing PacifiCorp contracts with year 1992 amendments. PacifiCorp for those contracts has computed the new variable energy rate. Does the Commission agree with the proposed changes in the variable rates?

Scott D. Woodbury

bls/M:GNR-E-07-01_PAC-E-07-09_sw



RECEIVED
2007 JUN 15 2:10:00
IDAHO PUBLIC
UTILITIES COMMISSION

201 South Main, Suite 2300
Salt Lake City, Utah 84111

June 15, 2007

Idaho Public Utilities Commission
PO Box 83730
Boise, ID 83720-0074

Attention: Scott D Woodbury

RE: Case Nos. GNR-E-07-1; PAC-E-07-09

Dear Mr. Woodbury,

Thank you for your letter of May 24, 2007 in which you provided the 2007-2008 updated prices for the adjustable portion of the avoided costs rates under the present avoided cost methodology. Your letter also provided an update to the adjustable rate portion of avoided costs for QF contracts using variable costs associated with Colstrip and for PacifiCorp contracts with 1992 amendments.

During our reviewing the proposed gas price update, we noticed that the heat rate used to convert the proposed gas price was 7350 MMBtu/KWH. In Order No. 29124 issued on 9/26/02, the Commission changed the heat rate from 7350 to 7100. Therefore, using a gas price of \$6.94 and a heat rate of 7100, the adjustable portion of the fueled rate should be 49.27 mills/kWh.

With the exception of the item listed above, PacifiCorp has reviewed the price update and agree that the prices have been updated correctly.

If you have any questions please feel free to call or email me at (503) 813-5541 or Mark.Widmer@PacifiCorp.com.

Sincerely,

Mark Widmer /p. n.

Mark Widmer
Director, Net Power Cost

June 15, 2007

2007 JUN 15 AM 8:05
UTILITIES COMMISSION

Randy C. Allphin
Senior Planning Administrator
Tel: (208) 388-2614
rallphin@idahopower.com

Idaho Public Utilities Commission
Attn: Scott Woodbury
PO Box 83720
Boise, ID 83720-0074

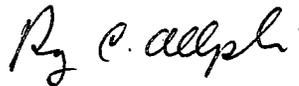
RE: CASE NOS. GNR-E-07-1

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

We have reviewed the information you have provided in your letter dated May 24, 2007 notifying Idaho Power of revision of the adjustable portion of the Avoided cost rate(s) for existing PURPA contracts.. Idaho Power concurs that the model and calculations used by the IPUC staff for Idaho Power Company are consistent with IPUC Order 28708.

In reviewing the letter it was noticed that the calculation of the approved gas price of \$7.80 less the \$0.87 decrease resulted in a new price of \$6.94. Mathematically, this calculation should result in a new price of \$6.93. Idaho Power contacted Rick Sterling and discussed this calculation; the \$0.01 difference is a result of mathematical rounding of the components within this calculation. Based upon our discussion with Rick, the \$6.94 value is acceptable.

Sincerely,



Randy C Allphin
Idaho Power Company

Cc: Bart Kline (IpcO)

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



Corp.

REGISTERED
2007 JUN 14 8:18 AM
IDAHO PUBLIC
UTILITIES COMMISSION

June 12, 2007

State of Idaho Public Utilities Commission
Mr. Rick Sterling
Statehouse Mail
West 472 Washington
Boise, ID 83720

RE: Case No. GNR-E-07-01

Dear Mr. Sterling:

Avista is responding to the notice dated May 24, 2007 regarding the annual revision and updated calculation of the adjustable portion of the avoided cost rates. The Company is in agreement with the Colstrip adjustable rate of 11.47 mill/kWh and the annual average gas price of \$6.94/mmbtu for the 2007-20087 year.

Thank you,

A handwritten signature in black ink, appearing to read "Clint Kalich".

Clint Kalich
Manager of Resource Planning and Power Supply Analyses