DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL

DATE: FEBRUARY 20, 2009

SUBJECT: CASE NO. GNR-E-08-02 (Idaho Power, PacifiCorp, Avista)
PACIFICORP MOTION TO CONTINUE DECISION IMPLEMENTING STIPULATION (CHANGING NON-FUEL RELATED SAR COSTS)

On November 5, 2008, a joint Petition was filed by Idaho Power Company (Idaho Power) on behalf of itself, the Staff of the Idaho Public Utilities Commission (Staff), Avista Corporation (Avista), PacifiCorp (PacifiCorp), U.S. Geothermal, Inc. (U.S. Geothermal), Exergy Development Group of Idaho LLC (Exergy), Tuana Springs Energy LLC (Tuana), and Idaho Windfarms LLC (IWF). Collectively, Petitioners seek Commission approval of a Stipulation proposing changes in non-fuel related Surrogate Avoided Resource (SAR) costs and request modification of published avoided cost rates.

Background

On September 10, 2007, Idaho Power filed a Petition with the Idaho Public Utilities Commission (Commission) to modify the methodology for determining fuel costs used to establish published rates for PURPA qualifying facilities (QFs). On December 28, 2007, the Commission, in Order No. 30480, stated as follows:

> . . . we find it reasonable, based on the written record developed in this case, to adopt Staff's proposed change for calculating the fuel cost component and published avoided cost rates. We further find that the proposed change in the methodology to calculate the fuel cost component and published avoided cost rates can be made independently (and in advance) of a review of the entire list of non-fuel methodology variables.

> The Commission agrees that a periodic review of the other methodology variables is advisable, and accepts and encourages Idaho Power's offer to conduct a 2008 workshop to review the other non-fuel methodology variables. We also deem it advisable that PacifiCorp and Avista participate. We direct the Company to report its workshop findings to the Commission.

Order No. 30480, p. 11.

In accordance with Order No. 30480, Idaho Power hosted workshops on April 4, 2008, and July 23, 2008. At the conclusion of the July 23 workshop, the participants agreed to continue their discussions by e-mail with the goal of reaching a consensus on changes that should be made to the non-fuel related costs of the SAR.

Non-fuel variables consist of two general categories – utility-specific variables and generic variables. Utility-specific variables relate to each utility's cost of capital. Because they are a direct outcome of general rate cases, the Petitioners agree that they are not an issue in this case. Generic variables relate to the (SAR), whose costs set the basis from which Idaho's published avoided cost rates are determined. Adjustment of the non-fuel related generic variables is the subject of this case and the Stipulation.

As a result of their continuing settlement discussions, the Petitioners agreed on interim values derived from using a "base year" of 2008 in the model for the non-fuel related costs of the SAR. Those values are depicted below and are set out in Paragraph 4 of the Stipulation:

Non-Fuel Related SAR Costs	**Current**	**Proposed**
Heat Rate	7,100	7,100
Equivalent Availability Factor	92%	86.5%
Capital Cost	$802/kW	$1,100/kW
Variable O&M	$3.47/MWh	$3.86/MWh
O&M Escalation Rate	2.7%	2.0%
SAR Escalation Rate	2.1%	1.4%
Fixed O&M	$13.24	$14.71
General Inflation	2.7%	2.0%

Published avoided cost rates are adjusted as new fuel-related SAR values become available from the Northwest Power and Conservation Council (Council) or the Council's general advisory committees. A new Council natural gas price forecast was released on December 29, 2008. Petitioners in their filing with the Commission on November 5, 2008 recommended that the non-fuel related values of published rates be implemented at the same time the Commission approved new fuel-related avoided cost components based on the Council's median forecast of natural gas prices.

On November 26, 2008, the Commission issued a Notice of Petition and Modified Procedure in Case No. GNR-E-08-02 and established a December 17, 2008 deadline for filing written comments or protests. No comments or protests were filed by the deadline.

On January 23, 2009, the Council released its planning assumptions for advanced combined cycle power plants.

Capital Cost	$1,313 per kW ($1,207 + $106 adder for AFUDC)
Fixed O&M	$14.57 per kW
Variable O&M	$1.77 per MWh

The Commission Staff computed revised avoided cost rates that incorporated the Council's gas forecast and its combined cycle planning assumptions, and, on January 26, 2009, circulated those computations for review by the utilities. Avista, Idaho Power and PacifiCorp all submitted electronic reply comments to Staff. The comments received by Staff clearly indicate that, despite all parties signing a Stipulation agreeing to adopt Council assumptions, there is no longer a meeting of the minds with regard to interpretation of the Stipulation. See attached comments.

On February 5, 2008, PacifiCorp filed a Motion to Continue Decision Implementing Stipulation. PacifiCorp is concerned that the overall avoided cost price that the SAR methodology yields is too high. PacifiCorp contends that the Council's January 26, 2009 planning assumptions are representative of elevated pricing and bullish economic perceptions that are not representative of the dramatic recessionary environment that is forecast by most experts to be deep and long. PacifiCorp notes that the impact of using the draft medium NPCC fuel curve is approximately two-thirds of the 27% increase in avoided costs. PacifiCorp believes that the Council's medium natural gas price curve (December 29, 2008 draft) yields an avoided cost that is too high, and is not a true reflection of current forward natural gas prices and projections. PacifiCorp believes that the low and medium-low NPCC price forecasts are a better indicator of current and projected market conditions than the medium case.

PacifiCorp requests that the Commission (1) stay the implementation of the Stipulation until the parties have had a chance to discuss the effects that the current economic downturn will have on the avoided cost price in Idaho and (2) re-evaluate its use under the SAR avoided cost methodology of the medium NPCC draft price curve . . . so that Idaho customers are not impacted by potentially above market QF prices. At a minimum, PacifiCorp recommends that the Commission postpone approval of the gas curve component until the draft fuel prices for the Council's Sixth Power Plan are final. Alternatively, should the Commission determine it necessary to change avoided costs based on the current Northwest Planning and Conservation Council's forecast, PacifiCorp requests that these avoided cost rates apply only to small non-fuel projects of 1 MW or less.

On February 10, 2009, Black Canyon LLC, a wind power developer in Bonneville County, Idaho petitioned for intervention. Black Canyon states it has made substantial progress in project development including among other things: completion of (a) a System Impact Study, (b) a Facilities Study, and (c) an Interconnection Agreement. Black Canyon intends to seek a power purchase agreement from PacifiCorp and has been awaiting the establishment of new published rates.

COMMISSION DECISION

A Stipulation was filed in this case proposing interim changes to non-fuel related SAR costs. The Petitioners recommended that implementation coincide with the anticipated change in NPCC's forecast of natural gas prices.

PacifiCorp believes that use of the Council's January 23, 2009 planning assumptions and December 29, 2008 medium price natural gas forecast results in published avoided cost rates that are too high. PacifiCorp has filed a Motion recommending

1. That the Commission stay implementation of any change in avoided cost rates pending further review of the Council's forward price curves and planning assumptions for advanced combined cycle power plants.

2. That the Commission re-evaluate its use in the SAR avoided cost methodology of the medium NPCC draft price curve. At a minimum, PacifiCorp recommends that the Commission postpone approval of the medium gas curve until the draft becomes final.

3. Alternatively, PacifiCorp recommends that the 10 MW eligibility cap for published avoided cost rates be reduced to 1 MW.

Staff has initiated a separate case (GNR-E-09-01) to implement a change in the avoided cost rates under existing methodology. The change proposed is adoption of the Council's December 29, 2008 medium case natural gas price forecast. (Draft Fuel Prices for the Sixth Power Plan.)

Scott Woodbury
Deputy Attorney General

bls/M:GNR-E-08-02_sw2

From: Allphin, Randy [RAllphin@idahopower.com]
Sent: Friday, January 30, 2009 12:13 PM
To: Rick Sterling
Cc: Kline, Bart; Gale, Ric; Walker, Donovan; Bokenkamp, Karl; Stokes, Mark
Subject: RE: Idaho draft avoided cost rates

Rick,

In regards to your request for Idaho Power to review your previous email, data and calculations of a new avoided cost rate.

Thank you for pulling this data together.

Idaho Power has reviewed the mathematical calculations of your spread sheets and finds them to be accurate and consistent with previously used calculations.

We have compared the Natural Gas Fuel forecast included in your calculations with the draft Natural Gas Fuel forecast from the NWPCC that they appear to be planning to use in 6th plan and find it to be accurate.

We have compared the values from the recent avoided cost stipulation that you have used in the calculations and find them to be accurate.

Capital Cost, Fixed O & M, and Variable O & M we compared the values to an Oct 2008 presentation that the NWPCC (Jeff King) made and found these values to be accurate.

In reviewing the recent avoided cost stipulation, our interpretation is that the parties agreed to move forward with the revised avoided cost calculation at the time final NWPCC Natural Gas Fuel forecast values were published and at that time any other NWPCC values that were finalized (i.e. Capital cost, fixed O & M, variable O & M, etc) values would be included in the calculation.

The NWPCC Natural Gas Fuel forecast has been reviewed in numerous meetings and committees, but it is our understanding it is still in draft form. Our information from the NWPCC is that they assume their Natural Gas Fuel forecast is final and have submitted it for use in the most recent draft of the NWPCC's 6th plan.

It is our understanding the Capital cost, Fixed O & M, and variable O & M values came from an Oct 2008 NWPCC presentation. The information we have heard is that the NWPCC is planning to review these values in more detail prior to submitting them for inclusion in the draft 6th plan.

As you noted in your e-mail, some of the Idaho Power values are dependent upon the outcome of the currently pending general rate case. In your e-mail you mentioned that the order in this case may be coming out shortly, we agree it would be prudent to wait for this final order and include the revised Idaho Power values in this calculation.

In summary – In the spirit of moving this avoided cost calculation forward without any further delays, Idaho Power can accept your proposed values and calculations at this time, contingent upon the following:

1) The input values being used are draft input values and at the time these draft values are finalized, the finalized values will be input into the model and if the final values materially alter the calculated avoided cost values the avoided cost would be revised at that time.

2) All contracts signed will contain the avoided cost values as published by the IPUC at the time the contract is signed and not be subject to change. (i.e. if use of the final input values materially alters the avoided cost, the revised avoided cost will not be available for projects that have previously signed contracts using the avoided cost that was based upon the draft values)

3) Use of the daft values at this time will not set precedence or alter the process identified in the stipulation for future processing of this calculation. In the future, the avoided cost calculation will be revised at the time the NWPCC publishes a final revised Natural Gas Fuel forecast and at that time any of the other identified values that the NWPCC has published in final form will be included in the calculation.

If you have any questions or if would like the information contained within in this e-mail put in a different form please contact me.

Randy Allphin
Idaho Power Company
(208) 388-2614

From: Rick Sterling [mailto:Rick.Sterling@puc.idaho.gov]
Sent: Monday, January 26, 2009 1:18 PM
To: clint.kalich@avistacorp.com; michael.andrea@avistacorp.com; Kline, Bart; Walker, Donovan; Allphin, Randy; Stokes, Mark; daniel.solander@pacificorp.com; laren.hale@pacificorp.com; paul.clements@pacificorp.com; bruce.griswold@pacificorp.com; peter@richardsonandoleary.com; joe@mcdevitt-miller.com; glenni@pacbell.net; dreading@mindspring.com
Cc: Randy Lobb; Scott Woodbury; Rick Sterling
Subject: Idaho draft avoided cost rates

Attached for your review are draft avoided cost rates. These rates have been computed in accordance with the Stipulation signed by parties in Case No. GNR-E-08-02. The computations are based on the following assumptions:

1. Northwest Power and Conservation Council, Draft Fuel Prices for the Sixth Power Plan, December 29, 2008, Appendix A: Medium Case Fuel Price Forecast Tables; Table A-1: Natural Gas Prices at Key Hubs and Northwest Generators; Medium Case; East-Side Delivered prices (See attached).

2. Northwest Power and Conservation Council, Advanced Combined Cycle Power Plant Planning Assumptions, January 23, 2009. All costs are in 2008 dollars. (See attached).

Capital Cost	\$1,313 per kW (\$1,207 +\$106 adder for AFUDC)
Fixed O& M	\$14.57 per kW
Variable O&M	\$1.77 per MWh

3. Cost and performance assumptions agreed to in the Stipulation in GNR-E-08-02.

Heat Rate	7100 Btu/kWh
O&M Escalation Rate	2.0%
SAR Escalation Rate	1.4%
SAR Plant Life	30 years
Equivalent Availability Factor	86.5%

General Inflation 2.0%

As a consequence of Idaho Power's ongoing general rate case (IPC-E-08-10) and anticipated changes to the Company's weighted average cost of capital, Idaho Power's draft rates will be further adjusted before being finalized. An order in Idaho Power's general rate case is expected to be issued on or before January 30, 2009.

Please review the draft rates for consistency with the Stipulation, accuracy in incorporating fuel price and CCCT assumptions of the Council, and computational accuracy. The Commission would like to make the new rates effective as soon as possible. We would appreciate receiving any comments you have no later than January 30, 2009. Contact Rick Sterling of the Commission Staff with any questions or to obtain a copy of the avoided cost spreadsheet (208-334-0351; rick.sterling@puc.idaho.gov).

Rick Sterling
Idaho Public Utilities Commission
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February 4, 2009

Via Email Only
Rick Sterling
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702
Email: rick.sterling@puc.idaho.gov

Re: Idaho Draft Avoided Cost Rates

Dear Rick:

On January 26, 2009, you forwarded for review and comment Idaho's draft avoided cost rates. I have reviewed the draft avoided cost rates for Avista Corporation ("Avista") and believe that you have properly calculated costs given your assumptions. That said, Avista has some concerns with those assumptions and provides the following comments on the draft avoided cost rates.

NWPCC Assumptions are Not Yet Final

According to the stipulation agreed by the parties late last year in IPUC Docket No. GNR-E-08-02, Surrogate Avoided Resource ("SAR") assumptions are to be updated as they become available from the Northwest Power and Conservation Council ("NWPCC" or "Council"). Although draft values are now available from the Council, it has not released even its Draft Sixth Power Plan. The final plan is not anticipated until late this year. The values included in the proposed PURPA rate appear to be based on current draft documents and not final values. It is very likely that this information will not change; however, Avista understands that under the stipulation final values will be used. At a minimum, the IPUC should make clear that, once final values are available, the avoided cost rates will be revised to reflect such final values.

The SAR Assumption for EAF Was Not Updated

Notwithstanding the above comment regarding the use of final values issued by the NWPCC, the IPUC has not updated all SAR assumptions identified in the stipulation.

Specifically, the equivalent availability factor ("EAF") was not increased to 92% per the NWPCC draft. The stipulation is clear that the listed SAR values will all be updated, including EAF. Adjusting the EAF to 92% based on Council data lowers the 20-year levelized rate by approximately $2/MWh

<u>Capital Costs Are Overstated</u>

In reviewing the capital cost assumption, it appears that the IPUC selected the highest capital cost value from the NWPCC forecast, both from a historical and projected basis. The NWPCC is forecasting a dramatic fall in gas plant capital costs, from approximately $1,200 per kW presently to $850 per kW. It is inappropriate to set long-term PURPA rates for projects built years into the future at today's inflated (and falling) prices. Another method should be employed.

One approach would be to calculate an avoided cost for each online year, using the NWPCC capacity cost estimate in that year. Another approach would be to accept the long-term cost trend ($852 per kW in 2006 dollars) by averaging prices over the 20-year horizon of 2010 to 2029. Avista is open to other ideas, so long as they reflect anticipated expected long-term project costs. Lowering the capital cost from $1,300/kW in 2008 to $900/kW in 2008 lowers the 20-year levelized rate by approximately $7/MWh.

<u>The IPUC Should Make Clear that the Use of Draft Data in this Circumstance Does Not Set Any Precedent</u>

Assuming the IPUC must proceed with implementing rates based on draft NPCC data in this case, Avista would hope that in the future adjustments are made based on information contained in final documents.

<u>Grandfathering</u>

There is a long history of grandfathering projects due to changing circumstances. To prevent this, Avista would like it made clear to all parties ahead of time that contracts signed based on these rates will not be adjusted in the future, up or down, based on new information. Contracts signed under then-current terms should stand.

<u>Uniformity with Other State PURPA Rates</u>

Idaho PURPA rates are now significantly above rates available to developers located outside of Idaho. The discrepancies are large enough that it would be reasonable to expect these developers to wheel their power from locations outside of Idaho (but potentially within the service territories of multi-jurisdictional utilities) to locations inside simply to acquire the higher PURPA rate. Even with the cost of transmission the economics would appear to support this activity. Although IPUC staff have indicated that they do not believe this would be allowed, Avista is unable to locate any law or order that would prevent this occurring.

Overall PURPA Rate Appears High

Paying nearly $90 per MWh for wind generation when Avista does not obtain the green tag value seems very high. Avista believes there is the potential for it to build wind projects at this cost and retain the green tag value. One solution the company has considered is moving to a Wind SAR where a proceeding could be used to define generic wind costs rather than forcing a wind facility to look like a gas plant.

Avista appreciates the opportunity to comment on the draft avoided cost rates. Please contact me if you have any questions regarding any of Avista's comments.

Respectfully submitted,

Clint Kalich
Manager of Resource Planning and Analysis

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

1407 West North Temple
Salt Lake City, Utah 84116

February 2, 2009

VIA ELECTRONIC MAIL
AND OVERNIGHT DELIVERY

Rick Sterling
Idaho Public Service Commission
472 W. Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074
rick.sterling@puc.idaho.gov

RE: Case No. GNR-E-08-02 - In the Matter of the Joint Petition to Approve a Stipulation to Adjust Published Avoided Cost Rates.

Rocky Mountain Power (the "Company") would like to provide you and the Idaho Commission with our comments regarding the draft avoided cost rates for small non-fuel projects less than ten megawatts that you circulated on January 26, 2009. Although the Company agreed with the stipulation's logic for computing and updating capital costs, heat rate, and O&M Costs in the SAR methodology, the Company is concerned that the overall Qualifying Facility ("QF") avoided cost price that the SAR methodology yields is too high. The assumptions underlying the avoided cost prices in the January 26, 2009 draft paper are representative of elevated pricing and bullish economic perceptions in the first half of 2008 and are not representative of costs that reflect the dramatic recessionary environment that is forecast by most experts to be deep and long. The primary, but not sole driver to the high QF avoided costs in the January 26, 2009 draft paper is the result of using the Northwest Planning and Conservation Council's ("NPCC") Draft Fuel Prices for the Sixth Power Plan, December 29, 2008.

The NPCC price forecast includes five different levels to capture a range of possible outcomes (low, medium low, medium, medium-high, and high). When the NPCC price forecast was first used in the SAR methodology, the Commission expressed confidence that the medium forecast had the highest probability of being right (Order No. 29124, pg. 10). Given the rapid pace of decline in global economic conditions in recent months, the Company feels the medium NPCC gas price forecast is, at present, not the most accurate representation of current market conditions. The NPCC Draft Fuel Prices for the Sixth Power Plan states:

> "The low case assumes slow world economic growth which reduces the pressure on energy supplies. It is a future where world supplies of natural gas are made available through aggressive development of LNG capacity, favorable nonconventional supplies and the technologies to develop them, and low world oil prices providing an alternative to natural gas use. The low case would also be consistent with a scenario of more rapid progress in renewable electric generating technologies, thus reducing the demand for natural gas..."

> "The intermediate cases are variations on the medium case that are considered reasonably likely to occur. The medium-high case would contain elements of the high scenario, however, not to the same degree. Similarly, the medium-low case would contain some of the more optimistic factors described for the low case."

There are a number of market "sign posts" that align well with NWPPC's description of their low case:

- World economic growth has slowed and reduced pressure on energy supplies.
- There are a number of significant liquefaction projects coming online in 2009 and 2010, with projects in Indonesia, Qatar, Russia, and Yemen expected to contribute nearly 7 BCF/d of new capacity to the global market.
- In 2008, there was more LNG regassification capacity added than in the four prior years combined, with even larger growth expected for 2009.
- Technological advancements in horizontal drilling and hydraulic fracturing have enabled growth in nonconventional natural gas supplies to outpace declines in conventional production and imports.
- Despite OPEC's efforts to cut production, oil prices remain much lower than the recent highs experienced this past summer. As of January 30, 2009, prompt month WTI crude settled below $42 per barrel.

At the time the NPCC medium gas price forecast was first adopted, there was very little liquidity in the forward markets beyond 12 to 18 months, and thus the ability to test which of the NPCC five forecast levels was most reflective of then current market conditions was limited. However, since 2002, the forward markets have become more liquid, and NYMEX now offers physical contracts for Henry Hub through 2021. The figure below shows how the medium, medium-low, and low NPCC price forecasts compare to NYMEX forwards as of market close on January 30, 2008.

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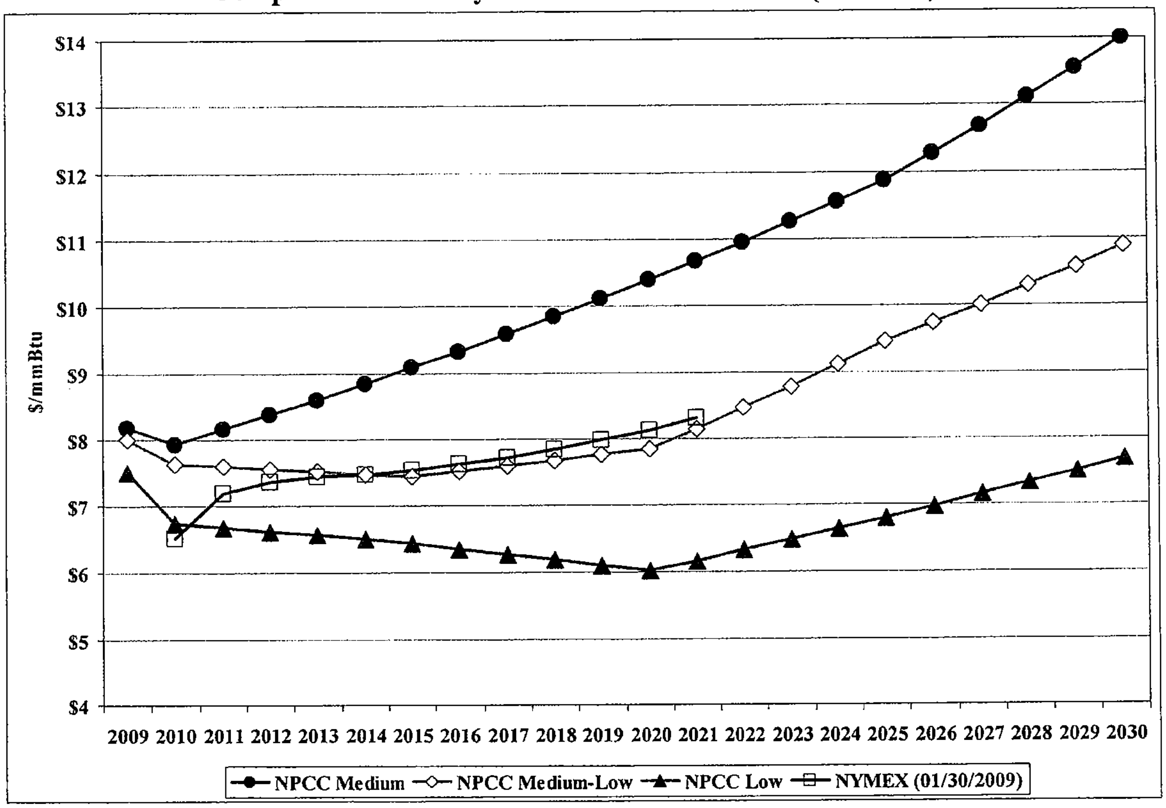
Comparison of Henry Hub Natural Gas Prices (Nominal)[1]



[1]The average NYMEX price from March 2009 through December 2009 is $4.99 per mmBtu. Because this is a partial year average, it is not shown as a comparison against the NPCC forecasts in the figure above. The NPCC forecasts were converted from 2006 dollars to nominal using a 2% per year escalation rate.

While not shown in the figure above, market forward prices for the balance of 2009 are considerably lower than even the low NPCC price forecast. Market forward prices in 2010 are most closely aligned with the low NPCC price forecast. Beyond 2010, the medium-low NPCC price forecast begins to align reasonably well with current market forward prices. Over the entire NYMEX strip, the NPCC medium case projection is considerably higher than current market. Given the NPCC's description of their low case forecasts, current market "sign posts," and current market forwards, the Company believes that the low and medium-low NPCC price forecasts are a better indicator of current market conditions than the medium case.

Just as the rapid decline in global economic conditions has influenced the natural gas market, the current recessionary climate has led to extraordinary commodity price declines. With declining raw material prices, lower demand for electricity, and the potential for falling construction market premiums, the Company is concerned that the SAR capital cost assumptions may be also contributing to avoided cost prices that are too high. Presentation materials from the NPCC's Generating Resources Advisory Committee (GRAC) meeting on January 22, 2009, indicate that combined cycle plant costs are expected to decline in real terms over the entirety of their forecast horizon ("Uncertainty in the Regional Portfolio Model", slide 5). Further, the Company would like to note that conversion of the overnight SAR capital cost figures from 2006 dollars to 2008 dollars as applied in the draft avoided cost rates appears to have been done at an annual escalation rate of 2.0% per year. It is the Company's understanding that the SAR annual escalation rate is 1.4%.

According to the methodology circulated on January 26, 2009, the draft avoided cost rate will be a nominal levelized $87.42 per MWh for a twenty year contract for projects on-line in 2009. This rate is 27% higher than current Idaho avoided cost of $68.66 and 15% higher than any avoided cost price Rocky Mountain Power has experienced in other states, where QF avoided cost prices for the same length of contract range from approximately $55 to $74 per MWh nominal levelized. This rate also exceeds those included in the Company's current IRP and that of recently acquired renewable resources. Even if the SAR methodology utilizes the NPCC gas curve for the low reference case, it still puts Idaho on the high end of published avoided cost prices realized in other states served by the Company and at the high end of any renewable resource the Company has contracted with or built. Based on the Revised Protocol agreement, if other states determine that costs associated with new QF contracts exceed the costs PacifiCorp would have otherwise incurred acquiring comparable resources, then the excess costs will be assigned directly to the state approving those contracts. The Company is concerned with the impact that establishing an avoided cost of $87.42 per MWh could have on its Idaho customers.

The Company realizes that the gas forecasts used by the Commission are not directly at issue in this Stipulation. However, the Company believes that the medium natural gas price curve from NPCC yields a price that is too high, and is not a true reflection of current gas costs. The impact of using the draft medium NPCC fuel curve is approximately two-thirds of the 27% increase in the avoided costs and the Company feels that warrants, at a minimum, postponing Commission approval of the gas curve component until the NPCC fuel prices are final. The Company is also requesting that additional time in order to more thoroughly review all of the assumptions used in the NPCC forecast. Given the dramatic global economic downturn and extraordinary downward impact on commodity costs that has occurred in the last few months, the Company questions the timing of an update that does not appear to reflect current market conditions and suggests the Commission consider updating the price forecast after conditions have become more stable. Accordingly, the Company requests that the Commission reevaluate its use of this draft price curve before QF prices are established using these inflated costs so that Idaho customers are not impacted by potentially above market QF prices.

As an alternative if the Commission determines it necessary to approve avoided costs rates based on the current NPCC forecast Rocky Mountain Power requests that these rates apply only to small non-fuel projects of one megawatt or less.

The Company also wants to bring to your attention a possible error in the fuel price applied in the SAR methodology. The NPCC forecast is in 2006 dollars. The 2006 dollars are converted to nominal dollars by using a Commission approved 2% fuel inflation factor. We noted the factor was not applied in 2007 and 2008. The fuel escalation rate is also incorrectly listed as 2.70% in the circulated draft paper issued January 26, 2009, instead of the 2.0% Commission approved fuel inflation factor.

Please let me know if you have any further questions.

Very Truly Yours,

Jeffrey K. Larsen
Vice President, Regulation

Rocky Mountain Power