

DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL

DATE: JUNE 8, 2009

SUBJECT: CASE NO. GNR-E-09-02 (Idaho Power, Avista, PacifiCorp)
ADJUSTABLE PORTION OF AVOIDED COST RATE
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.

CASE NO. PAC-E-09-04 (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 12.06 mill/kWh to 14.09 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 increased by \$1.82/mmbtu. The approved gas price of \$7.18/mmbtu

plus the \$1.82/mmbtu increase results in a gas price of \$9.00/mmbtu for the 2009-2010 year. This equates to a SAR fuel cost of 63.90 mill/kWh using a heat rate of 7,100 btu/kWh as used in the model for potential future contracts in accordance with Order No. 29124. For existing contracts signed under an assumed heat rate of 7,350 btu/kWh, this equates to a SAR fuel cost of 66.15 mill/kWh.

The Commission Staff by letter (attached) dated May 13, 2009, 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.

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, 2009 extending through June 30, 2010 has been computed by PacifiCorp to be \$14.36/MWh, an increase from \$14.11 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 Woodbury
Deputy Attorney General

b1s/M:GNR-E-09-02_PAC-E-09-04_sw



**ROCKY MOUNTAIN
POWER**
A DIVISION OF PACIFICORP

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2009 MAY 28 AM 10:34

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

May 28, 2009

VIA OVERNIGHT DELIVERY

IDAHO PUBLIC UTILITIES COMMISSION

Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

Attention: Scott D. Woodbury
Deputy Attorney General

**RE: Case No. PAC-E-09-04
IN THE MATTER OF THE ANNUAL REVISION OF QF VARIABLE ENERGY
PRICES IN ACCORDANCE WITH THE TERMS OF THE 1992 AMENDMENTS
TO POWER PURCHASE AGREEMENTS BETWEEN IDAHO QFS AND
PACIFICORP.**

Dear Mr. Woodbury,

Thank you for your letter of May 13, 2009 in which you 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.

PacifiCorp has reviewed the proposed price update and agrees that the prices have been updated correctly. The Company accepts the new schedules as accurate.

If you have any questions please contact Ted Weston at (801) 220-2936 or email Ted.Weston@PacifiCorp.com.

Sincerely,

Jeffrey K. Larsen
Vice President, Regulation



**ROCKY MOUNTAIN
POWER**
A DIVISION OF PACIFICORP

RECEIVED

2009 MAY 28 AM 10:35

IDAHO PUBLIC
UTILITIES COMMISSION

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

May 28, 2009

VIA OVERNIGHT DELIVERY

Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

Attention: Scott D. Woodbury
Deputy Attorney General

RE: Case No. GNR-E-09-02

**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 ROCKY MOUNTAIN POWER.**

Dear Mr. Woodbury,

Thank you for your letter of May 13, 2009 in which you provided the 2009-2010 updated prices for the adjustable portion of the avoided costs rates under the present avoided cost methodology.

PacifiCorp has reviewed these proposed updated prices and agree that the prices have been updated correctly. The Company accepts the new schedules as accurate.

If you have any questions please contact Ted Weston at (801) 220-2936 or email Ted.Weston@PacifiCorp.com.

Sincerely,

Jeffrey K. Larsen
Vice President, Regulation

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2009 JUN -8 PM 12: 01

June 8, 2009

IDAHO PUBLIC
UTILITIES COMMISSION

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

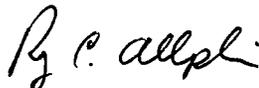
Idaho Public Utilities Commission
Attn: Scott Woodbury
PO Box 83720
Boise, ID 83720-0074

RE: CASE NOS. GNR-E-09-2

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 ROCKY MOUNTAIN POWER..

We have reviewed the information you have provided in your letter dated May 13, 2009 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.

Sincerely,



Randy C Allphin
Contract Administration

cc: Bart Kline (IPCo)
Donovan Walker (IPCo)

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



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2009 JUN -1 AM 8:31

IDAHO PUBLIC
UTILITIES COMMISSION

May 27, 2009

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

RE: Case No. GNR-E-09-02

Dear Mr. Woodbury:

Avista is responding to the notice dated May 13, 2009 regarding the annual revision and updated calculation of the adjustable portion of the avoided cost rates. The Company has reviewed and is in agreement with the Colstrip adjustable rate of 14.09 mill/kWh and the annual average gas price of \$9.00/MMBtu for the 2009-2010 year.

Thank you,

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

Clint Kalich
Manager of Resource Planning and Power Supply Analyses

cc: Rick Sterling, IPUC
Michael Andrea, Avista
Linda Gervais, Avista



STATE OF IDAHO

OFFICE OF THE ATTORNEY GENERAL

LAWRENCE G. WASDEN

May 13, 2009

Avista Corporation

Blair Strong
Paine, Hamblen, et al
717 W. Sprague Avenue, Suite 1200
Spokane, WA 99201-3505

Clint Kalich
Avista Utilities
1411 E. Mission
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Spokane, WA 99220-3727

Michael Andrea
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Rocky Mountain Power

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Idaho Power Company

Barton L. Kline
Idaho Power Company
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Boise, ID 83707-007

Randy Allphin
Idaho Power Company
PO Box 70
Boise, ID 83707-0070

RE: Case Nos. GNR-E-09-02; PAC-E-09-04

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 12.06 mill/kWh to 14.09 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 the Sumas-based methodology is based on annual average gas prices indexed at Sumas, Washington. As reported by Avista, the indexed gas prices have increased by \$1.82/MMBtu. The approved gas price of \$7.18/MMBtu plus the \$1.82/MMBtu increase results in a gas price of \$9.00/MMBtu for the 2009-2010 year. This equates to a SAR fuel cost of 63.90mill/kWh as used in the model.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for PacifiCorp contracts with 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, 2009 extending through June 30, 2010 has been computed to be \$14.36/MWh, an increase from \$14.11 last year.

Accompanying this letter are worksheets showing the computation of the revised adjustable rates for the various affected contracts. If after reviewing the revisions, you accept them as accurate please indicate your approval by letter (or other filing) directed to the Commission in the reserved case docket numbers identified above. The case heading for the generic adjustment, Case No. GNR-E-09-02, will read as follows:

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 ROCKY MOUNTAIN POWER.

The case heading in the PacifiCorp case for PacifiCorp QF contracts with 1992 Amendment language, Case No. PAC-E-09-04, is as follows:

IN THE MATTER OF THE ANNUAL REVISION OF QF VARIABLE ENERGY PRICES IN ACCORDANCE WITH TERMS OF THE 1992 AMENDMENTS TO POWER PURCHASE AGREEMENTS BETWEEN IDAHO QFS AND PACIFICORP.

Please file your respective responses with the Commission on or prior to June 5, 2009.

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

Enclosures

COLSTRIP ADJUSTABLE RATE CALCULATION

For Period 7/1/09-6/30/10

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2008

line 12	Net Generation (kwh)	1,757,659,000
line 20	Fuel	<u>\$21,253,774</u>
	Fuel cost per kwh	\$0.012092

Fuel Cost per MWh	\$12.0921
Variable O&M, Gen. Tax, 5% line loss per MWh	<u>\$2.0000</u>
Total Colstrip Adjustable Rate	\$14.0921

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

**PacifiCorp
Total Variable Energy Rate
for 2009/2010**

	Carbon	Naughton	Huntington	Hunter	Totals
Fuel Cost (\$)					
FERC Form 1 - Page 402, line 20	\$ 18,529,823	\$ 76,503,802	\$ 81,271,884	\$ 108,421,723	\$ 284,727,232
Generation (MWh)					
FERC Form 1 - Page 402, line 12	1,204,982	5,114,409	7,148,850	8,691,721	22,159,962
Average Fuel Cost (\$/MWh)	\$ 15.38	\$ 14.96	\$ 11.37	\$ 12.47	\$ 12.85
Variable O&M					
IPUC Order No. 28709				\$	\$ 1.51
Total Variable Energy Rate for 2009/2010				\$	\$ 14.36

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Average Gas Prices at Sumas, Washington from Inside FERC publication 2000 MAR 16 AM 8:28
(\$/MMBtu)

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Calculating the 2009-2010 Avoided Cost Adjustable Rate

	<u>2007</u>	<u>2008</u>
Jan	\$6.41	\$7.48
Feb	\$6.98	\$8.57
Mar	\$7.15	\$8.46
Apr	\$6.60	\$8.81
May	\$6.74	\$10.17
Jun	\$6.86	\$10.77
July	\$6.03	\$11.69
Aug	\$5.22	\$7.94
Sep	\$4.81	\$6.94
Oct	\$5.85	\$6.23
Nov	\$7.45	\$6.28
Dec	\$8.12	\$6.66
Average	\$6.52	\$8.33

Actual Annual Adjustment:

$\$7.18 - (\$6.52 - \$8.33) = \underline{\$9.00}$

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
\$3.33/MMBtu = 2003-04 Approved Rate
\$5.31/MMBtu = 2004-05 Approved Rate
\$5.92/MMBtu = 2005-06 Approved Rate
\$7.80/MMBtu = 2006-07 Approved Rate
\$6.94/MMBtu = 2007-08 Approved Rate
\$7.18/MMBtu = 2008-09 Approved Rate