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June 3, 2010

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RE: Case Nos. GNR-E-10-02; PAC-E-10-06

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 14.09 mill/kWh to 12.78 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 decreased by \$4.38/MMBtu. The approved gas price of \$9.00/MMBtu plus the \$4.38/MMBtu decrease results in a gas price of \$4.62/MMBtu for the 2010-2011 year. This equates to a SAR fuel cost of 32.80mill/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 \$14.53/MWh, an increase from \$14.36 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-10-02, 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-10-06, 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 18, 2010.

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 7/1/10-6/30/11

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2009

| | | |
|---------|----------------------|---------------------|
| line 12 | Net Generation (kwh) | 1,277,376,000 |
| line 20 | Fuel | <u>\$13,774,324</u> |
| | Fuel cost per kwh | \$0.010783 |

| | |
|--|-----------------|
| Fuel Cost per MWh | \$10.7833 |
| Variable O&M, Gen. Tax, 5% line loss per MWh | <u>\$2.0000</u> |
| Total Colstrip Adjustable Rate | \$12.7833 |

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

**PacifiCorp
Total Variable Energy Rate
for 2010/2011**

| | Carbon | Naughton | Huntington | Hunter | Totals |
|--|---------------|---------------|---------------|----------------|----------------|
| Fuel Cost (\$) | | | | | |
| FERC Form 1 - Page 402, line 20 | \$ 19,612,994 | \$ 74,045,306 | \$ 72,225,359 | \$ 104,856,697 | \$ 270,740,356 |
| Generation (MWh) | | | | | |
| FERC Form 1 - Page 402, line 12 | 1,211,875 | 4,752,632 | 6,753,764 | 8,071,182 | 20,789,453 |
| Average Fuel Cost (\$/MWh) | \$ 16.18 | \$ 15.58 | \$ 10.69 | \$ 12.99 | \$ 13.02 /MWh |
| Variable O&M | | | | | |
| IPUC Order No. 28709 | | | | \$ | \$ 1.51 /MWh |
| Total Variable Energy Rate for 2010/2011 | | | | \$ | \$ 14.53 /MWh |

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

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Calculating the 2009-2010 Avoided Cost Adjustable Rate

| | <u>2008</u> | <u>2009</u> |
|---------|-------------|-------------|
| Jan | \$7.48 | \$6.89 |
| Feb | \$8.57 | \$4.80 |
| Mar | \$8.46 | \$3.83 |
| Apr | \$8.81 | \$3.59 |
| May | \$10.17 | \$2.74 |
| Jun | \$10.77 | \$2.88 |
| July | \$11.69 | \$2.69 |
| Aug | \$7.94 | \$3.01 |
| Sep | \$6.94 | \$2.46 |
| Oct | \$6.23 | \$3.87 |
| Nov | \$6.28 | \$5.22 |
| Dec | \$6.66 | \$5.47 |
| Average | \$8.33 | \$3.95 |

Actual Annual Adjustment:

$$\$9.00 - (\$8.33 - \$3.95) = \underline{\$4.62}$$

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
\$9.00/MMBtu = 2009-10 Approved Rate