

DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: SEPTEMBER 20, 2007

SUBJECT: CASE NO. IPC-E-07-15 (Idaho Power)
PETITION TO MODIFY FUEL COST COMPONENT METHODOLOGY
FOR PUBLISHED QF RATES

Pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA) and the implementing regulations of the Federal Energy Regulatory Commission (FERC), the Idaho Public Utilities Commission (Commission) has approved a methodology for calculation of the avoided cost rates paid to PURPA qualifying cogeneration and small power production facilities (QFs) by Idaho Power Company, Avista Corporation and PacifiCorp. Avoided cost rates are the purchase price paid to QFs for purchases of QF capacity and energy.

On September 10, 2007, Idaho Power Company (Idaho Power; Company) 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 QFs. Idaho Power contends that use of the current method to set the fuel cost component in the SAR methodology will result in published avoided cost rates that are not representative of the costs Idaho Power is likely to avoid by purchasing energy from QFs.

BACKGROUND

In Order No. 29124 issued September 26, 2002 in Case No. GNR-E-02-1, the Commission established the methodology currently used to compute the fuel cost component of the surrogate avoided resource (SAR) methodology. For QF projects generating less than 10 aMW, the avoided cost rates determined by the SAR methodology are commonly referred to as the published rates. The current SAR is a natural gas-fired combined cycle combustion turbine.

The method the Commission adopted in Order No. 29124 to calculate the fuel cost component starts with an arithmetic average of the nominal prices for natural gas for the first 3 years of the Northwest Power Planning and Conservation Council's (NWPPCC) median 20-year forecast of natural gas prices. In Order No. 29124, the first 3 years of the 20-year forecast were 2000-2002. These three years consist of the current year's forecasted price, plus the previous two years forecasted prices. The average three-year price set in 2002 was \$3.75. The SAR methodology then escalates that 3-year average natural gas price at a uniform percent per year over 20 years. The escalation rate is also calculated from the NWPPCC 20-year natural gas forecast. In 2002 the escalation rate was 2.6%.

In 2004, the NWPPCC revised the 20-year natural gas price forecast. In Order No. 29646, the Commission revised the fuel cost component for the SAR methodology utilizing the average of the NWPPCC's natural gas price forecast for the 3-year period 2004 through 2006. This change in the three-year average price revised the fuel cost component in the SAR methodology to \$5.10. The fuel escalation rate was changed to 2.3%. As a result of these two changes, in 2004, the levelized published rate for a QF project estimated to come on-line in 2007 (20-year term) went from 53.67 mills/kWh in 2002 to 62.40 mills/kWh in 2004.

IDAHO POWER PROPOSAL

On July 31, 2007, the NWPPCC released a draft of its next forecast of natural gas prices. Petition, Attachment 1. Idaho Power contends that there exists an extreme divergence between NWPPCC's forecast of natural gas prices and the assumed cost of fuel for the SAR. The principal reason for the divergence between the assumed cost of fuel for the SAR under the current methodology and the NWPPCC's 20-year forecast in natural gas prices is the use of the 3-year average starting point and the linear escalation from that starting point. By starting the fuel cost assumption at the high-end of the range of prices shown in the NWPPCC forecast and escalating prices from that point in a linear profile, the current methodology fails to recognize the expected downward trend in fuel prices apparent in NWPPCC's 20-year forecast. Failing to recognize the non-linear shape of the NWPPCC's 2007 forecast, the Company contends, will cause the published rates to be much higher than they otherwise would be.

Idaho Power proposes that the Commission utilize the average of all 20 years of the NWPPCC's final 2007 median 20-year natural price forecast as the fuel cost component in the SAR methodology. Because Idaho Power proposes to use the 20-year average price, no

escalation forecast is needed. (Utilizing assumptions in the NWPCC 2007 draft forecast, the calculated escalation rate is 1.10%.)

Petition Attachment 4 depicts three sets of published avoided cost rates for Idaho Power – (1) the current published avoided cost rates; (2) the published avoided cost rates that will go into effect if the NWPCC accepts its 2007 draft natural gas price forecast as its final forecast and the 3-year average natural gas price method remains unchanged; and (3) Idaho Power proposal – the fuel cost component is computed using the average of the 20 years of natural gas prices from the NWPCC’s draft 2007 median gas price forecast:

Published Rate Calculation Model	Using NWPCC Gas Forecast		
	Current Pricing	Update Fuel Only Using Established Method	Update Fuel Only Using a 20 yr Avg
	NWPCC 2004 Fuel 3 yr avg 2002-2004	NWPCC 2007 Fuel 3 yr avg 2005-2007	NWPCC 2007 Fuel 20 yr avg 2008-20027
20-yr levelized rate, on-line date:			
2007	62.40	72.22	67.77
2008	63.84	73.22	68.15
2009	65.31	74.23	68.54

Idaho Power believes that its Petition presents a limited policy question to the Commission. The Company does not believe that its proposal presents a factual dispute requiring a technical proceeding to effectuate a resolution. The Company proposes to retain the fundamental SAR methodology. The assumptions for all components of the SAR methodology remain the same except for the fuel cost assumption. All of the data required to analyze Idaho Power’s proposal to change the fuel cost assumption are contained in the NWPCC’s 2007 natural gas price forecast in the current SAR methodology model. The Company is not requesting a stay of the implementation of the new published rates while this case is pending.

Idaho Power requests that the Commission issue an Order changing the method for determining the fuel cost component of the SAR methodology to utilize the average of all 20 years set out in the NWPCC’s 2007 final median forecast of natural gas prices rather than the escalated average of the first 3 years of the same forecast.

COMMISSION DECISION

Idaho Power proposes a change in the methodology used for determining the fuel cost component in published avoided cost rates. The draft fuel price forecast by the NWPCC that forms the basis for the Company's filing was approved by the Council on September 11 (<http://www.nwcouncil.org/library/2007/2007-14htm>).

The Company recommends that its Petition be processed under Modified Procedure, i.e., by written submission rather than by hearing. IDAPA 31.01.01.201-204. Staff concurs. Does the Commission find it reasonable to process this case under Modified Procedure?

Scott Woodbury

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