

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL
WORKING FILE**

FROM: RICK STERLING

DATE: JULY 18, 2003

**RE: REVISION OF QF VARIABLE ENERGY PRICES IN ACCORDANCE
WITH TERMS OF THE 1992 AMENDMENTS TO POWER PURCHASE
AGREEMENTS BETWEEN IDAHO QFS AND PACIFICORP; CASE NO.
PAC-E-03-10.**

On July 1, 2003, PacifiCorp (Company) sent a letter notifying the Commission of an annual revision to the variable energy price for Qualifying Facilities (QFs) holding certain power sales contracts with the Company. Thirteen QFs have contracts with PacifiCorp that include a 1992 amendment that outlines a methodology that is to be used for determining the variable energy price component of the avoided cost rate. As stated in the 1992 amendment:

Beginning July 1, 2003 and continuing throughout the term of the power purchase agreement, including any extensions, the variable energy rate shall be calculated in accordance with the following methodology:

- a) the variable energy rate shall be the sum of the Buyer's (PacifiCorp) fuel cost and the variable O&M cost.
- b) Buyer's fuel cost shall be the average cost of fuel consumed in Buyer's Utah Division, specifically the Carbon, Hale, Naughton, Huntington and Hunter generating plants. If any of the specified plants does not operate in any calendar year, such plant shall be excluded from the calculation of the average cost of fuel. The average cost of fuel shall be calculated using the data reported in Buyer's FERC Form 1. For 1990, Buyer's fuel costs are reported at pages 402-403, lines 12 and 21 of the FERC Form 1. In the event that the FERC Form 1 ceases to include the cost of fuel or net generation data, comparable data based upon Buyer's normal accounting practices shall be used.

c) Buyer's variable O&M cost shall be calculated using the methodology adopted by the Idaho Public Utilities Commission in Order No. 23738 for determining the variable avoided O&M cost of the Surrogate Avoidable Resource, excluding the State of Montana generation tax and the line loss adjustment.

The variable energy component is composed of two parts, fuel costs for PacifiCorp's Utah thermal plants and variable O&M costs. Commission Order No. 28708 clarified how each of these two parts to the variable energy component is to be computed:

For those PacifiCorp contracts with 1992 Addendum language, we note, by way of clarification, that the fuel component calculation is to remain unchanged, i.e., "average fuel costs as reported in FERC Form 1 for PacifiCorp Carbon, (Hale—presently out of service), Naughton, Huntington and Hunter plants." The variable O&M under the PacifiCorp QF contracts, while presently fixed, is to be tied to Colstrip beginning in 2003. The Commission notes that pursuant to the '92 Addendum language in the PacifiCorp QF contracts, generation taxes and a line loss adjustment are specifically excluded from the calculation of any variable O&M. It is not our intention to change this contract term. The Commission notes, as calculated by Staff, that the exclusion of line loss (5%) and generation tax (20¢/MWh) from the variable Colstrip calculation for affected PacifiCorp contracts (beginning in 2003) results in an adjusted O&M figure of \$1.51/MWh.

As computed by PacifiCorp, fuel costs in 2002 for its Utah thermal plants is \$8.66/MWh. As stated above in Order No. 28708, variable O&M has been set at \$1.51/MWh. The sum of these two parts is \$10.17/MWh, and represents the new variable energy rate for the affected contracts.

Concurrent with the letter received by the Commission, PacifiCorp submitted workpapers for Staff's review showing how the new variable energy rate has been computed. Staff has reviewed the Company's data and computations and believes they comport with both the 1992 Amendment and with Commission Order No. 28708.

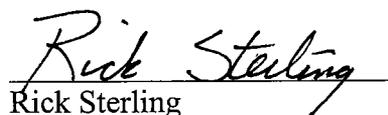
Besides notifying the Commission of the new variable energy rate, PacifiCorp sent letters to the holder of each affected contract. Staff also sent letters to the same parties and posted the Company's workpapers showing its calculations on the Commission's web page for review.

Because the 1992 Amendments require annual adjustments henceforth, Staff recommends that the Commission direct the Company to annually submit its revised variable energy costs on

a schedule consistent with other avoided cost annual updates that become effective on July 1 each year. By filing its revised variable energy costs on or before June 1 each year, Staff will be able to process the changes before the July 1 effective date, and the Commission can incorporate the revision in the same Order issued prior to July 1 each year that updates the Colstrip and Sumas avoided cost rate adjustments that apply to some other QF contracts.

RECOMMENDATIONS

Staff recommends approval of the revised variable energy costs as computed by PacifiCorp for existing QF power purchase contracts with the 1992 Amendments for an effective date of July 1, 2003. Supporting workpapers have been provided. The calculation is formulaic and mathematical; Staff contends that no further notice of procedure is required. Individual copies of the Commission's Order will be mailed to all affected QFs. Staff recommends that henceforth, PacifiCorp be directed to make a filing showing its computation of the revised variable energy costs for these contracts on or before June 1 of each year.


Rick Sterling

QF Dec Memo