



STATE OF IDAHO

OFFICE OF THE ATTORNEY GENERAL

LAWRENCE G. WASDEN

May 28, 2004

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

Doug Young
Avista Utilities
1411 E. Mission
PO Box 3727
Spokane, WA 99220-3727

James C. Paine
James Fell
Stoel Rives LLP
900 SW Fifth Avenue Suite 2600
Portland, OR 97204

Mark Widmer
PacifiCorp
825 NE Multnomah Street
Portland, OR 97232

Barton L. Kline
Idaho Power Company
PO Box 70
Boise, ID 83707-0070

RE: Case Nos. GNR-E-04-1; PAC-E-04-3

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 8.64 mill/kWh to 8.88 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba UP&L 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 \$1.98/mmbtu. The approved gas price of \$3.33/mmbtu plus the \$1.98/mmbtu increase results in a gas price of \$5.31/mmbtu for the 2004-2005 year. This equates to a SAR fuel cost of 39.03 mill/kWh as used in the model.

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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 plans, 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, 2004 extending through June 30, 2005 has been computed by PacifiCorp to be \$10.52/MWh, an increase from \$10.17 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 in this matter will read as follows:

IN THE MATTER OF THE ANNUAL REVISION AND UPDATED CALCULATION OF THE ADJUSTABLE PORTION OF THE AVOIDED COST RATES FOR AVISTA CORPORATION DBA AVISTA UTILITIES FOR EXISTING PURPA CONTRACTS, FOR IDAHO POWER COMPANY, AND FOR PACIFICORP DBA UTAH POWER & LIGHT COMPANY.

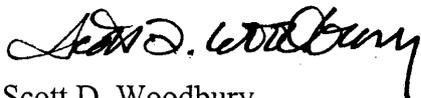
The case heading in the PacifiCorp case for PacifiCorp QF contracts with 1992 Amendment language is as follows:

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 you respective responses with the Commission on or prior to June 15, 2004.

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
(208) 334-0320

Enclosures

bls/L:GNRE0401_PACE0403sw

COLSTRIP ADJUSTABLE RATE CALCULATION

For Period 7/1/04-6/30/05

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2003

line 12	Net Generation (kwh)	1,593,135,000
line 20	Fuel	<u>\$10,959,960</u>
	Fuel cost per kwh	\$0.006879

Fuel Cost per MWh	\$6.8795
Variable O&M, Gen. Tax, 5% line loss per MWh	<u>\$2.0000</u>
Total Colstrip Adjustable Rate	\$8.8795

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

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

Calculating the 2004-2005 Avoided Cost Adjustable Rate

	<u>2002</u>	<u>2003</u>
Jan	\$2.52	\$4.44
Feb	\$1.87	\$4.76
March	\$2.13	\$7.32
April	\$3.15	\$4.29
May	\$2.82	\$4.58
June	\$2.42	\$4.87
July	\$1.90	\$4.65
Aug	\$1.87	\$3.93
Sept	\$2.54	\$4.36
Oct	\$3.06	\$4.14
Nov	\$3.92	\$4.08
Dec	\$3.96	\$4.50
 Average	 \$2.68	 \$4.66

Actual Annual Adjustment:

$$\text{\$3.33} - (\text{\$2.68} - \text{\$4.66}) = \text{\$5.31}$$

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

PacifiCorp
Total Variable Energy Rate
for 2004 / 2005

	Carbon	Naughton	Huntington	Hunter	Totals
Fuel Cost (\$) FERC FORM 1 - Page 402 Line 20	\$ 10,521,512	\$ 52,243,371	\$ 57,956,997	\$ 76,503,852	\$ 197,225,732
Generation (MWH) FERC FORM 1 - Page 402 Line 12	1,371,293	4,799,139	7,213,219	8,494,782	21,878,433
Average Fuel Cost (\$/MWH)					\$ 9.01 /MWH
Variable O&M IPUC Order 28709					\$ 1.51 /MWH
Total Variable Energy Rate for 2004 / 2005					\$ 10.52 /MWH