DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: AUGUST 2, 2007

SUBJECT: CASE NO. PAC-E-07-13 (PacifiCorp)
PETITION TO REVISE PUBLISHED AVOIDED COST RATES TO INCLUDE MONTHLY PRICE MULTIPLIERS

On June 18, 2007, PacifiCorp dba Rocky Mountain Power (RMP; Company) filed a Petition with the Idaho Public Utilities Commission (Commission) requesting authority to revise its published avoided cost rates for qualifying facilities (QFs) under Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) to include monthly price multipliers to recognize the monthly difference in value between energy delivered by QFs during heavy load hours (HLH) and energy delivered during light load hours (LLH). As reflected in the Company's Petition, this revision would not change the computation of avoided cost but could change the total revenues received by QFs depending on which month and when during the day they deliver energy.

RMP notes that Idaho Power Company in its petition in pending Case No. IPC-E-07-04 has requested that the published avoided cost rates be adjusted to include a daily load shape. Idaho Power already has in place a recognition of its seasonal load. RMP notes further that Avista Corporation requested, and the Commission approved, a similar daily shape adjustment in Case No. AVU-E-06-04 (Order No. 30111).

As reflected in RMP's Petition, at the present time, the Company pays the same price to a QF that delivers energy entirely during light load hours as a QF that delivers entirely during heavy load hours. Likewise, the Company pays the same price to a QF that delivers entirely in a peak load month as a QF that delivers entirely in a non-peak load month. RMP believes that the existing payment structure is inappropriate as it does not provide proper incentives to QFs, and is neither fair to customers nor to the QF because it could result in either under or over payments for the value of the power.

The Company's proposed heavy load hour and light load hour monthly price multipliers are reflected below.

Month	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
HLH	103%	105%	95%	95%	92%	94%	121%	121%	109%	115%	110%	129%
LLH	94%	97%	80%	76%	63%	65%	92%	106%	99%	105%	96%	120%

Note: These monthly price multipliers are derived from:

(1) 48-months of historical daily Dow Jones firm market data for the COB, Four Corners, Mid-Columbia and Palo Verde wholesale market hubs. The 48-months reflected in this analysis is from April 1, 2003 through to and including March 31, 2007; and

(2) 48-months of system balancing data extracted from two GRID scenarios; a Base Case and an Avoided Cost Case. The 48-months reflected in these studies is from January 1, 2007 through to and including December 31, 2010.

These multipliers are subject to change if different 48-month periods are selected.

On June 27, 2007, the Commission issued Notices of Petition and Modified Procedure in Case No. PAC-E-07-13. The deadline for filing written comments was July 27, 2007. Commission Staff was the only party to file comments.

Like the other two utilities, Avista in Commission Order No. 30111 issued in Case No. AVU-E-06-04 and Idaho Power in Case No. IPC-E-07-04, PacifiCorp is seeking to implement a series of monthly price multipliers that will recognize seasonal differences in energy value as well as daily differences between heavy and light load hours. The Company has never had either seasonal or daily adjustments in its avoided cost rates before in Idaho.

PacifiCorp's proposal differs slightly from the other two utilities in two respects. First, rather than breaking the year into two or three seasons, PacifiCorp is proposing a different price multiplier for each month. Second, rather than a fixed difference between heavy and light load hour rates, the Company proposes monthly differences. Thus, there are two different price multipliers for each month – one for heavy load hours and one for light load hours, or a total of 24 different price multipliers throughout the year. The price multipliers have been derived from an analysis of historical price differences at four trading hubs where PacifiCorp frequently transacts.

The price multipliers proposed by PacifiCorp range from a low of 63% during light load hours in May, to a high of 121% during heavy load hours in July. On average over the course of the year, the difference in heavy and light load hour prices is $7.18. This compares closely to Staff's proposed daily shape adjustment for Idaho Power of $7.28, and is not too different from the $5.00 per megawatt hour daily shape adjustment approved for Avista. Staff notes that there are several possible disadvantages to the price multipliers proposed by PacifiCorp. First, the price multipliers could introduce greater uncertainty in the monthly payments QFs would receive because some, particularly wind generators, have no way of accurately knowing how many kilowatt hours their project will produce either on a monthly basis or in on-peak vs. off-peak hours. Another disadvantage is the need for hourly metering capability at all future projects. Finally, the adoption of a series of 24 price multipliers introduces additional complexity into an already fairly complex system of avoided cost rates.

Despite these possible disadvantages, however, Staff is supportive of the concept of seasonal and daily price multipliers because, although only approximate, they create rates that more closely match avoided cost rates to the true value of power at the time of delivery. Staff recommends approval of PacifiCorp's Petition.

COMMISSION DECISION

PacifiCorp has proposed to revise its published avoided cost rates to include monthly price multipliers to recognize the monthly differences in value between energy delivered by QFs during heavy load hours and energy delivered during light load hours. Does the Commission find it reasonable to approve PacifiCorp's Petition?

Scott Woodbury

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