

## DECISION MEMORANDUM

**TO: COMMISSIONER REDFORD  
COMMISSIONER SMITH  
COMMISSIONER KEMPTON  
COMMISSION SECRETARY  
LEGAL**

**FROM: SCOTT WOODBURY  
DEPUTY ATTORNEY GENERAL**

**DATE: JUNE 6, 2008**

**SUBJECT: CASE NO. GNR-E-08-01 (Idaho Power, Avista, PacifiCorp)  
ADJUSTABLE PORTION OF AVOIDED COST RATE  
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.**

**CASE NO. PAC-E-08-04 (PacifiCorp)  
ANNUAL VARIABLE ENERGY RATE ADJUSTMENT -  
1992 AMENDMENT QF CONTRACTS.**

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 should change from 11.47 mill/kWh to 12.06 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 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 \$0.24/MMBtu. The approved gas price of \$6.940/MMBtu plus the \$0.24/MMBtu increase results in a gas price of \$7.18/MMBtu for the 2008-2009 year.

This equates to a SAR fuel cost of 50.98 mill/kWh using a heat rate of 7,100 Btu/kWh as used in the model for potential future contracts in accordance with Order No. 29124. For existing contracts signed under an assumed heat rate of 7,350 Btu/kWh, this equates to a SAR fuel cost of 52.77 mill/kWh.

The Commission Staff by letter (attached) dated May 5, 2008, prepared by Staff Engineer Rick Sterling, calculated changes to the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip and Sumas for review by the respective utilities. Avista, Idaho Power and PacifiCorp by letter responses (attached) indicated that Staff's calculations are correct.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for existing PacifiCorp contracts with year 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, 2008 extending through June 30, 2009 has been computed by PacifiCorp to be \$14.11/MWh, an increase from \$12.17 last year.

### **COMMISSION DECISION**

Under avoided cost methodology the adjustable portion of avoided cost rates for existing contracts is calculated annually for an effective date of July 1. Avista, Idaho Power and PacifiCorp agree with Staff's proposed calculations. Also adjusted annually is the adjustable portion of avoided cost rates for existing PacifiCorp contracts with year 1992 amendments. PacifiCorp for those contracts has computed the new variable energy rate. Does the Commission agree with the proposed changes in the variable rates?



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Scott D. Woodbury  
Deputy Attorney General

bls/M:GNR-E-08-01\_PAC-E-08-04\_sw

Avista Corp.  
1411 East Mission PO Box 3727  
Spokane, Washington 99220-3727  
Telephone: 509-488-0500  
Toll Free: 800-727-9170

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2008 MAY 27 AM 8:33

IDAHO PUBLIC  
UTILITIES COMMISSION

**AVISTA**

Corp.

May 20, 2008

State of Idaho Public Utilities Commission  
Mr. Rick Sterling  
Statehouse Mail  
West 472 Washington  
Boise, ID 83720

RE: Case No. GNR-E-08-01

Dear Mr. Sterling:

Avista is responding to the notice dated May 5, 2008 regarding the annual revision and updated calculation of the adjustable portion of the avoided cost rates. The Company is in agreement with the Colstrip adjustable rate of 12.06 mill/kWh and the annual average gas price of \$7.18/MMBtu for the 2008-2009 year.

Thank you,



Clint Kalich  
Manager of Resource Planning and Power Supply Analyses



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IDAHO PUBLIC  
UTILITIES COMMISSION

STATE OF IDAHO

OFFICE OF THE ATTORNEY GENERAL

LAWRENCE G. WASDEN

May 5, 2008

**Avista Corporation**

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

Clint Kalich  
Avista Utilities  
1411 E. Mission  
PO Box 3727  
Spokane, WA 99220-3727

Michael Andrea  
Avista Utilities  
1411 E. Mission  
PO Box 3727  
Spokane, WA 99220-3727

**Rocky Mountain Power**

Dean Brockbank  
PacifiCorp dba Rocky Mountain Power  
201 S. Main Street, Suite 2300  
Salt Lake City, UT 84111

Greg Duvall  
Laren Hale  
PacifiCorp dba Rocky Mountain Power  
825 NE Multnomah Street  
Portland, OR 97232

Mark Moench  
General Counsel  
201 S. Main Street, Suite 2300  
Salt Lake City, UT 84111

Ted Weston  
PacifiCorp dba Rocky Mountain Power  
One Utah Center  
201 S. Main Street, Suite 2300  
Salt Lake City, UT 84111

**Idaho Power Company**

Barton L. Kline  
Idaho Power Company  
PO Box 70  
Boise, ID 83707-007

Randy Allphin  
Idaho Power Company  
PO Box 70  
Boise, ID 83707-0070

**RE: Case Nos. GNR-E-08-01; PAC-E-08-04**

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 11.47 mill/kWh to 12.06 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 increased by \$0.24/MMBtu. The approved gas price of \$6.94/MMBtu plus the \$0.24/MMBtu increase results in a gas price of \$7.18/MMBtu for the 2008-2009 year. This equates to a SAR fuel cost of 52.77 mill/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, 2008 extending through June 30, 2009 has been computed to be \$14.11/MWh, an increase from \$12.17 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 for the generic adjustment, Case No. GNR-E-08-01, 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.

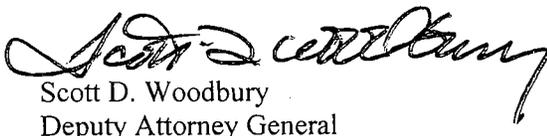
The case heading in the PacifiCorp case for PacifiCorp QF contracts with 1992 Amendment language, Case No. PAC-E-08-04, is as follows:

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 3, 2008.

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 7/1/08-6/30/09

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2007

line 12	Net Generation (kwh)	1,672,761,000
line 20	Fuel	<u>\$16,829,966</u>
	Fuel cost per kwh	\$0.010061

Fuel Cost per MWh	\$10.0612
Variable O&M, Gen. Tax, 5% line loss per MWh	<u>\$2.0000</u>
Total Colstrip Adjustable Rate	\$12.0612

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

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

**Calculating the 2008-2009 Avoided Cost Adjustable Rate**

	<u>2006</u>	<u>2007</u>
Jan	\$9.66	\$6.41
Feb	\$7.12	\$6.98
Mar	\$6.39	\$7.15
Apr	\$5.81	\$6.60
May	\$5.89	\$6.74
Jun	\$4.91	\$6.86
July	\$5.09	\$6.03
Aug	\$5.91	\$5.22
Sep	\$5.55	\$4.81
Oct	\$3.91	\$5.85
Nov	\$7.30	\$7.45
Dec	\$7.86	\$8.12
Average	\$6.28	\$6.52

Actual Annual Adjustment:

$$\$6.94 - (\$6.28 - \$6.52) = \underline{\$7.18}$$

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

**PacifiCorp  
Total Variable Energy Rate  
for 2008/2009**

	Carbon	Naughton	Huntington	Hunter	Totals
Fuel Cost (\$)					
FERC Form 1 - Page 402, line 20	\$ 16,105,801	\$ 77,343,857	\$ 82,679,450	\$ 97,385,514	\$ 273,514,622
Generation (MWh)					
FERC Form 1 - Page 402, line 12	1,339,343	5,210,618	7,127,084	8,038,666	21,715,711
Average Fuel Cost (\$/MWh)	\$ 12.03	\$ 14.84	\$ 11.60	\$ 12.11	\$ 12.60
Variable O&M					
IPUC Order No. 28709				\$	1.51
Total Variable Energy Rate for 2008/2009				\$	14.11

2008 MAY 23 AM 10:47

IDAHO PUBLIC  
UTILITIES COMMISSION

May 23, 2008

Idaho Public Utilities Commission  
PO Box 83730  
Boise, ID 83720-0074

Attention: Scott D Woodbury

RE: Case Nos. GNR-E-08-1; Case No. PAC-E-08-04

Dear Mr. Woodbury,

Thank you for your letter of May 5, 2008 in which you provided the 2008-2009 updated prices for the adjustable portion of the avoided costs rates under the present avoided cost methodology. Your letter also provided an update to the adjustable rate portion of avoided costs for QF contracts using variable costs associated with Colstrip and for PacifiCorp contracts with 1992 amendments.

PacifiCorp has reviewed these proposed updated prices and agree that the prices have been updated correctly. The Company accepts the new schedules as accurate.

If you have any questions please feel free to call or email me at (503) 813-5540 or [Hui.Shu@PacifiCorp.com](mailto:Hui.Shu@PacifiCorp.com).

Sincerely,

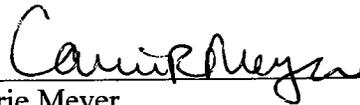


Hui Shu  
Manager, Net Power Cost

### CERTIFICATE OF SERVICE

I hereby certify that on May 23, 2008, I caused to be served, via Overnight Delivery, a true and correct copy of Rocky Mountain Power's Response in PAC-E-08-04, to the following:

Blair Strong Paine, Hamblen, et al 717 W. Sprague Ave, Suite 1200 Spokane, WA 99201-3505	Clint Kalich Michael Andrea 1411 E. Mission PO Box 3727 Spokane, WA 99220-3727
Dean Brockbank Mark Moench Ted Weston 201 S. Main Street, Suite 2300 Salt Lake City, UT 84111	Greg Duvall Laren Hale 825 NE Multnomah Street Portland, OR 97232
Barton L. Kline Randy Allphin PO Box 70 Boise, ID 83707-007	



Carrie Meyer  
Coordinator, Administrative Services



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IDAHO PUBLIC UTILITIES COMMISSION

May 20, 2008

**Randy C. Allphin**  
Senior Planning Administrator  
Tel: (208) 388-2614  
[rallphin@idahopower.com](mailto:rallphin@idahopower.com)

Idaho Public Utilities Commission  
Attn: Scott Woodbury  
PO Box 83720  
Boise, ID 83720-0074

RE: CASE NOS. GNR-E-08-1

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..

We have reviewed the information you have provided in your letter dated May 5, 2008 notifying Idaho Power of revision of the adjustable portion of the Avoided cost rate(s) for existing PURPA contracts.. Idaho Power concurs that the model and calculations used by the IPUC staff for Idaho Power Company are consistent with IPUC Order 28708.

Sincerely,

Randy C Allphin  
Contract Administration

cc: Bart Kline (IPCo)  
Donovan Walker (IPCo)