DECISION MEMORANDUM

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

FROM: **KRISTINE SASSER**
DEPUTY ATTORNEY GENERAL

DATE: **MAY 30, 2012**

SUBJECT: **CASE NO. GNR-E-12-02 (Idaho Power, Avista, PacifiCorp)**
ADJUSTABLE PORTION OF AVOIDED COST RATE
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.

CASE NO. PAC-E-12-09 (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 11.38 mill/kWh to 14.80 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 decreased by $0.39/MMBtu. The approved gas price of $4.99/MMBtu

plus the $0.39/MMBtu decrease results in a gas price of $4.60/MMBtu for the 2012-2013 year. This equates to a SAR fuel cost of 32.66 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 33.81 mill/kWh.

The Commission Staff by letter (attached) dated May 14, 2012, 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, 2012 extending through June 30, 2013 has been computed by PacifiCorp to be $18.52/MWh, an increase from $16.42 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?

Kristine A. Sasser

Kristine A. Sasser
Deputy Attorney General

bls/M:GNR-E-12-02_PAC-E-12-09_ks

STATE OF IDAHO

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May 14, 2012

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Re: Case Nos. GNR-E-12-02; PAC-E-12-09

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 11.38 mill/kWh to 14.80 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 decreased by $0.39/MMBtu. The approved gas price of $4.99/MMBtu plus the $0.39/MMBtu decrease results in a gas price of $4.60/MMBtu for the 2012-2013 year. This equates to a SAR fuel cost of 32.66 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, 2012 extending through June 30, 2013 has been computed to be $18.52/MWh, an increase from $16.42 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-12-02, 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-12-09, 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 May 25, 2012.

Thank you for your cooperation. Please feel free to contact Rick Sterling if you have any questions.

Sincerely,

Kristine A. Sasser

Kristine A. Sasser
Deputy Attorney General

Enclosures

bls/L:GNR-E-12-02_PAC-E-12-09_ avoided cost

COLSTRIP ADJUSTABLE RATE CALCULATION

For Period 7/1/12-6/30/13

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2010

line 12	Net Generation (kwh)	1,432,719,000
line 20	Fuel	$18,339,428
	Fuel cost per kwh	$0.012800

Fuel Cost per MWh	$12.8004
Variable O&M, Gen. Tax, 5% line loss per MWh	$2.0000
Total Colstrip Adjustable Rate	$14.8004

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

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

Calculating the 2012-2013 Avoided Cost Adjustable Rate

	2010	2011
Jan	$6.49	$4.19
Feb	$5.51	$4.11
Mar	$4.78	$3.82
Apr	$3.98	$4.04
May	$3.97	$3.99
Jun	$3.75	$4.03
July	$4.06	$4.00
Aug	$3.80	$3.97
Sep	$3.11	$3.72
Oct	$3.66	$3.70
Nov	$3.75	$3.66
Dec	$4.98	$3.93
Average	$4.32	$3.93

Actual Annual Adjustment:
$4.99 – ($4.32-$3.93) = $4.60

Note:
$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
$7.18/MMBtu = 2008-09 Approved Rate
$9.00/MMBtu = 2009-10 Approved Rate
$4.62/MMBtu = 2010-11 Approved Rate
$4.99/MMBtu = 2011-12 Approved Rate

PacifiCorp
Total Variable Energy Rate
for 2012 / 2013

	Carbon	Naughton	Huntington	Hunter	Totals
Fuel Cost ($) 2011 FERC FORM 1 - Page 402 Line 20	$ 20,346,469	$ 101,169,233	$ 94,465,053	$ 121,472,568	$ 337,453,323
Generation (MWH) 2011 FERC FORM 1 - Page 402 Line 12	1,332,218	5,102,251	5,961,371	7,445,083	19,840,923

Average Fuel Cost ($/MWH)	$	17.01	/MWH
Variable O&M	$	1.51	/MWH
Total Variable Energy Rate for 2012 / 2013	$	18.52	/MWH

For deliveries commencing July 1, 2012 extending through June 30, 2013
12 PacifiCorp/QFs contracts with approved 1992 amendment language