DECISION MEMORANDUM

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

FROM: **SCOTT WOODBURY**

DATE: **JUNE 20, 2006**

SUBJECT: **CASE NO. GNR-E-06-1 (Idaho Power, Avista, PacifiCorp)**
ADJUSTABLE PORTION OF AVOIDED COST RATE
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.

CASE NO. PAC-E-06-6 (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 8.87 mill/kWh to 9.38 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 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 $1.88/mmbtu. The approved gas price of $5.92/mmbtu plus the $1.88/mmbtu increase results in a gas price of $7.80/mmbtu for the 2006-2007 year. This equates to a SAR fuel cost of 57.33 mill/kWh as used in the model.

The Commission Staff by letter dated May 17, 2006, 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, 2006 extending through June 30, 2007 has been computed by PacifiCorp to be $12.03/MWh, an increase from $11.55 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?

Scott D. Woodbury

gdk/M:GNRE061 PACE066_sw

RPS

IDAHO POWER®

An IDACORP Company

Randy C. Allphin
Contract Administrator

June 5, 2006

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

RE: CASE NOS. GNR-E-06-1

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 UTAH POWER AND LIGHT COMPANY.

We have reviewed the information you have provided in your letter dated May 17, 2006 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: Monica Moen (Ipco)
Bart Kline (Ipco)

Telephone: (208) 388-2614 Fax: (208) 433-5163 Rallphin@Idahopower.com

PACIFICORP
A MIDAMERICAN ENERGY HOLDINGS COMPANY

825 NE Multnomah, Suite 600
Portland, Oregon 97232

June 12 2006

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

Attention: Scott D Woodbury

RE: Case Nos. GNR-E-06-1; Case No. PAC-E-06-6

Dear Mr. Woodbury,

Thank you for your letter of May 17, 2006 in which you provided the 2006-2007 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) 813-5541 or Mark.Widmer@PacifiCorp.com.

Sincerely,

Mark Widmer
Director, Net Power Cost

RPS

Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170

AVISTA Corp.

May 25, 2006

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

RE: Case No. GNR-E-06-1

Dear Mr. Sterling:

Avista is responding to the notice dated May 17, 2006 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 9.38 mill/kWh and the annual average gas price of $7.80/mmbtu for the 2006-2007 year.

Thank you,

Clint Kalich
Manager of Resource Planning and Power Supply Analyses